Austria	[illegible]	Indonesia	[illegible]	Pakistan	[illegible]
Bahrain	[illegible]	Iran	[illegible]	Philippines	[illegible]
Belgium	[illegible]	Israel	[illegible]	Poland	[illegible]
Cyprus	[illegible]	Italy	[illegible]	Portugal	[illegible]
Denmark	[illegible]	Jordan	[illegible]	Qatar	[illegible]
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR7.00
Finland	FM8.50	Lebanon	L£600.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr65	Spain	Pta185
Germany	DM2.50	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr150	Morocco	MDh8.00	Switz	SFr2.50
Hong Kong	HK$12	Neth	Fl 3.25	Thailand	Bt50
Hungary	Ft107	Nigeria	Naira16	Tunisia	Din0.800
Iceland	IKr160	Norway	NKr12.00	Turkey	L3600
India	Rs15	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,200

Monday July 16 1990

D 8523A

EAST EUROPE

Forming a habit on a tide of history

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World News

Singh pulls back from threat to quit leadership

India's ruling Janata Dal party wrestled at the weekend to prevent its collapse after 13 ministers, including three of cabinet rank, resigned in protest against the election of Mr Om Prakash Chautala as Chief Minister of Haryana.

The political crisis deepened when Prime Minister V. P. Singh also sent his resignation to the Janata Dal President, an offer he later withdrew. Page 16

Pakistan bombings

At least 35 people were killed and more than 100 injured in a rash of bomb attacks in the south-western Pakistani town of Hyderabad. Page 2

Seal cull cancelled

A Taiwanese businessmen dropped plans to slaughter 30,000 seals off South Africa for dog food and aphrodisiacs after protests from animal rights activists, including French screen star Brigitte Bardot.

Czech evacuation

A group of about 30 Czechoslovak citizens, mostly women and children, left Cuba quietly as Prague and Havana maintained a tense diplomatic stand-off over 12 Cuban refugees sheltering in the Czechoslovak embassy. Page 2

Cambodian gloom

There is deepening international gloom about peace prospects in Cambodia as the five permanent members of the United Nations Security Council meet in Paris in search of a settlement. Page 2

Mandela tribute

Nelson Mandela, deputy leader of the African National Congress, visited the graves of ANC members killed in Mozambique by South African security forces in the 1980s.

University closed

The Government of President Kenneth Kaunda shut down Zambia's main university in Lusaka two weeks after student-led protests left at least 5 people dead. Page 2

China mine explodes

Forty-five workers were killed and 11 injured in a coal mine explosion in the northern Chinese province of Shandong.

French refuge

More than 500 Albanians arrived in France after being brought by ship from the Italian port of Brindisi, the first stop for thousands of refugees being evacuated from foreign embassies in Tirana.

Visit restores ties

A three-day visit to Egypt by President Hafez al-Assad of Syria ended a 13-year estrangement between the two countries which split over peace talks with Israel. Page 2

Cocaine seized

Colombian airborne troops raided a jungle laboratory close to the drug centre of Medellin and seized two tonnes of cocaine sealed in metal containers and buried.

Haiti in turmoil

The political situation in Haiti, which has been deteriorating over the past two months, is set to worsen after a row within the interim government. Page 2

Kill downplayed

Kenyan wildlife expert Richard Leakey downplayed the recent slaughter of six elephants near the border with Uganda as an isolated incident, not a resurgence in poaching.

Age no object

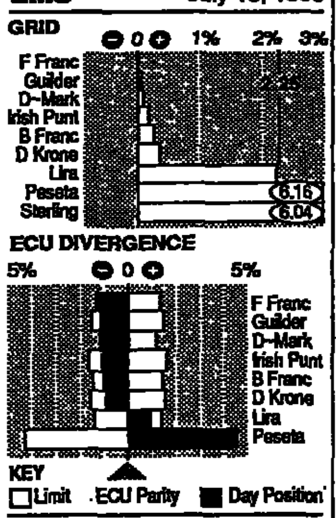
Ulrich Inderbinen, 99, Europe's oldest mountain guide, scaled the famed Matterhorn to mark the first climb of the Swiss peak 125 years ago.

Business Summary

US telecom authorities target world phone cartel

US telecommunications authorities are attacking the complex accounting rates system which determines how revenue from international calls is shared between the world's telephone companies, in a move designed to cut prices by half within two to three years. Page 16

EUROPEAN Monetary System: The Spanish peseta rose above its maximum limit within the system at times last week. The Bank of Spain sold pesetas against the weakest placed French franc and the D-Mark, but declined an opportunity on Friday to cut its money market intervention rate, thus keeping interest rates unchanged.



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu).

SIGNET, UK's largest credit card processing operation, is set to pass into US or French hands. Page 16

MITSUI Petrochemical Industries, leading Japanese chemicals company, and Samsung, South Korea's largest industrial group, are planning a wide-ranging joint venture in petrochemicals. Page 19

FRENCH STOCK EXCHANGE authorities and shareholders of Tuffier et Associés, stricken securities firm, met over weekend to avert financial crisis. Page 19

VENEZUELA is altering rules for the conversion of foreign debt into equity to encourage investment in large industrial projects. Page 2

RHONE-POULENC, French state-controlled chemicals group, raised FFr4.7bn ($887m) in new equity to help replenish its balance sheet after last year's international takeover spree. Page 19

CZECHOSLOVAKIA tapped the Eurobond market for first time on Friday with the launch of a DM250M ($151m) five-year Eurobond, guaranteed by Ceskoslovenska Statni Banka, state bank. Page 19

MARINE SYNDICATE 185, one of largest syndicates at Lloyd's, is expected to cease underwriting at the end of this year. Page 4

EUROPEAN industry has made a remarkable recovery and has restructured itself, according to a new inventory of EC businesses produced by European Commission. Page 4

CANADA'S Toronto-Dominion Bank has begun legal proceedings against GEC, Plessey and Siemens, to recover C$40.5m ($34m) lost in the collapse of Leigh Instruments, Ottawa-based electronics company. Page 19

Gorbachev and Kohl near deal on Germany in Nato

By Quentin Peel in Moscow

SOVIET President Mikhail Gorbachev and Chancellor Helmut Kohl of West Germany yesterday appeared to be on the brink of a breakthrough agreement on the future membership of a united Germany in Nato, in exchange for assurances on future German troop limits.

The two leaders emerged beaming and optimistic from a first round of talks in Moscow, before flying off to the southern Russian city of Stavropol – Mr Gorbachev's home territory – to continue their negotiations.

Senior officials confirmed their optimism, suggesting that a Soviet green light for Germany in Nato could well be announced today.

The deal would certainly be linked to a numerical limit on a united Germany's armed forces, to considerably less than the 495,000 currently in the Bundeswehr, and probably to compensation being agreed for the Soviet military facilities East Germany.

A key member of Mr Kohl's team in Moscow yesterday was Mr Theo Waigel, the West German Finance Minister, who held parallel talks with Mr Valentin Pavlov, his Soviet counterpart, and Mr Stepan Sitaryan, the Deputy Premier.

Officials said their talks covered West German proposals for a multilateral aid package, now to be investigated by the International Monetary Fund and other institutions, as well as possible help towards the cost of withdrawing Soviet troops from the east, and guarantees over long-standing trade contracts between the Soviet Union and East Germany.

Bonn has already guaranteed new trade credits totalling DM5bn ($3bn), and has agreed to pay the hard currency cost of keeping Soviet troops in East Germany this year, after monetary union between the two Germanys.

"It is clear already that our dialogue is very meaningful, the discussion is constructive and the atmosphere is good," Mr Gorbachev told reporters at an impromptu press conference. "We immediately started with tackling major problems. We have got a few small nuts to crack, but we have got very good teeth. We will crack them."

Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, said that he expected a deal on Nato membership, hitherto strongly opposed by Moscow.

A senior West German diplomat said there was "a good chance that we will get agreement on the major outstanding issues," while warn ing that it was "a very big

Continued on Page 16

Forming a habit on a tide of history, Page 15

West German Chancellor Helmut Kohl greets a wellwisher as he arrives at the southern Russian city of Stavropol for further talks with Soviet President Mikhail Gorbachev

Thatcher under pressure to back European unity

By Philip Stephens and Alison Smith in London

MRS MARGARET Thatcher, UK Prime Minister, faces intense pressure this week to limit the political damage left by the resignation of Mr Nicholas Ridley as Trade and Industry Secretary by underlining her support for a positive approach to closer European co-operation.

Mrs Thatcher is being urged by senior colleagues support the European strategy drawn up by Mr John Major, Chancellor of the Exchequer, and Mr Douglas Hurd, Foreign Secretary.

Mr Hurd, however, stressed yesterday that Britain's stance on closer integration with the European Community still fell far short of the rapid progress to a single currency and central bank sought by many of its European partners.

In an interview on BBC television he acknowledged that if Germany and France pressed ahead next year with their present blueprint for Economic and Monetary Union, Britain would opt for the "slow lane" of a two-speed Europe. He emphasised, however, that he expected others to join Britain in opposing such a split within the Community.

Mr Hurd, who will meet his EC counterparts at a meeting in Brussels today, also sought to dismiss suggestions that the anti-German views expressed by Mr Ridley in his Spectator magazine interview last week were shared by Mrs Thatcher. But his hopes that Mr Ridley's resignation – said by Whitehall officials to have come eventually at the insistence of Mrs Thatcher – would allow good relations with Bonn to be rapidly restored, were dented by publication of a confidential Downing Street minute.

The document, detailing a seminar on Germany held by the Prime Minister in March of this year, included a number of references to Germans as being prone to "agressiveness" and "bullying". As Cabinet ministers sought to close ranks after the political turmoil of the past few days, they voiced hopes that Mrs Thatcher would use two speeches at Westminster this week to re-unite the party.

Mr Kenneth Baker, the Party chairman, was said to be concerned the sharp divisions among Conservatives on Europe must be quickly healed if the Government's hopes of re-election were not to be severely damaged.

Mr Ridley's replacement by Mr Peter Lilley, a Treasury minister, reinforced the expectations of some at Westminster that the Government would move swiftly to underline its European credentials by taking up full membership of the European Monetary System.

Mr Ridley was a vehement opponent of the EMS exchange rate mechanism while Mr Lilley has accepted sterling's participation as inevitable.

Ridley resignation, Page 6; Editorial comment, Page 14; Lombard, Page 15

Overhaul of leadership completed

By Quentin Peel in Moscow

SOVIET President Mikhail Gorbachev completed at the weekend the total overhaul of his ruling Communist Party's leadership, cutting it off almost entirely from the formal structures of the Soviet Government.

His move rounds off an extraordinary political campaign over the past two weeks, in which the Soviet leader imposed his will on an unwilling and often hostile party congress and forced through a radical policy committed to market reforms, new and more democratic party rules, and the new leadership structure. And all this in spite of the obvious hostility of the party majority to his reform strategy.

Yet it has not proved enough to prevent the beginning of a potentially disastrous party split. There were further defections at the weekend of radicals following Mr Boris Yeltsin, the Russian president, and the leaders of the Democratic Platform, the most committed reformers, out of the ruling party.

Nor did it begin to answer the ever more radical calls from outside the Communist Party for nationalisation of its property, and the depoliticisation of the security forces – the army, militia and the KGB. Those were the key demands of demonstrators on the streets of Moscow again at the weekend.

Tens of thousands of fiercely anti-Communist demonstrators, bearing Russian tricolour flags and posters with slogans like "Down With Red Fascism," braved pouring rain to gather in Manezhnaya Square, at the Kremlin walls, to demand drastic curbs on the party's power.

The loudest cheers went to speakers like Mr Arkady Murashev, a people's deputy, who said "the party has been robbing the country for 70 years," and Mrs Valeria Novodvorskaya, leader of the radical Democratic Union, who denounced Mr Gorbachev as "the Führer of the Soviet empire."

Mr Gorbachev's coup nevertheless clears the way for his next major effort to transform the Soviet Government, bringing in new blood from outside the Communist Party to make it an effective coalition and possibly replacing his long-standing ally, Mr Nikolai Ryzhkov, as Prime Minister in order to accelerate the process of economic reform.

The real centre of power now will be the presidency, [illegible] Ryzhkov and the other leading members of the Government – Mr Eduard Shevardnadze, Foreign Minister, Mr Vladimir Kryuchkov, head of the KGB, Marshal Yazov, Defence Minister, and Mr Vadim Bakatin, Interior Minister – sitting on the Presidential Council.

The new Politburo, elected on Saturday, is a colourless and unwieldy body of 24, including the leaders of all 15 republican Communist parties, and not a single member of the Government.

Picture, Page 2

Outburst puts strain on UK-German ties

By David Marsh in Bonn

THE Nicholas Ridley affair seems certain to weigh down future Anglo-German relations, despite of the West German Government's insistence yesterday that Mr Ridley's resignation had cleared the air.

"It has been totally settled," said one official from the Chancellor's Office, with what used to be called typically British understatement.

"What Ridley said was so stupid that we refused to believe that his comments reflected the views of the British Establishment."

The official made clear that relations would have come under great strain had Mr Ridley stayed. "If he had come to meetings in Brussels and met people whom he had described as Nazis, idiots or poodles, it wouldn't have been very comfortable."

Mr Hans-Dietrich Genscher, Foreign Minister, used the soothing tones of a family doctor to reassure British diplomats in Bonn on Thursday that Mr Ridley's outburst would have "no consequences" for Anglo-German relations.

Mr Rüdiger von Wechmar, West Germany's Ambassador to London until the end of 1988, said, however, that Bonn would have to pay more attention to analysing its relationship with Britain.

Continued on Page 16

World Bank turns development spotlight on reducing poverty

By Robin Pauley, Asia Editor, in London

A NEW, dual approach to world poverty will be required by the international community if there is to be any chance of reducing the plight of 1bn people attempting to live on $370 a year or less, says *The World Development Report 1990* which is published today by the World Bank.

The report says the two elements of the strategy, neither of which would have any chance of reducing poverty without the other, are:

- efficient labour-intensive growth based on appropriate market incentives, physical infrastructure, institutions and technological innovation; and
- adequate provision of social services, including primary education, basic health care and family planning services.

In addition, transfers would be needed to help those who would not otherwise benefit, including the destitute, the sick and the aged. Safety nets must be provided to protect those most vulnerable to income-reducing shocks such as those caused by recession, adds the report.

The authors suggest that if the strategy is broadly followed, the worst poverty could be substantially alleviated before the turn of the century.

That assessment, however, is based on an exceptionally favourable set of economic assumptions: growth in industrial countries of about 3 per cent a year, falling real interest rates, rising commodity prices over the next 10 years and a successful conclusion to the trade talks in the Uruguay Round of the General Agreement on Tariffs and Trade and other forums.

If these conditions were not fulfilled, the impact on poverty would be less great unless the developed world made the poor a much greater priority than now.

The easing of geopolitical tensions offered a unique opportunity to cut military spending and increase international assistance.

A cut of just 10 per cent in military spending by the countries of the North Atlantic Treaty Organisation would pay for a doubling of aid. Development assistance provided by industrial country donors in recent years has been only about 5 per cent of their military expenditures.

Aid has represented only about 1.4 per cent of central government expenditures for members of the Development Assistance Committee of the OECD – and only about 0.8 per cent for the US.

"The decade started with momentous changes in the USSR and in many eastern European countries. These may point the way towards a world less gripped by superpower rivalry and more devoted to improving the quality of life.

"In many areas, the political and economic obstacles are daunting."

Poverty in Britain, Page 5; World Bank spotlight on poor, Page 3; Editorial comment, Page 14

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THE MONDAY INTERVIEW

"It is absolutely crucial to be credible," argues Mr Leszek Balcerowicz, Deputy Prime Minister and Finance Minister of Poland, now more than six months into the shock programme of which he is architect

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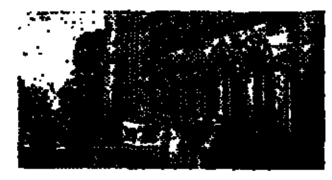
FT SURVEYS THIS WEEK



Manchester's financial district

TODAY:

Financial and Professional Services in the North-West of England:

The sector appears to be *doing well at a time when its* London counterpart is suffering from an economic downturn. *Section III*

THURSDAY:

Izmir and the Aegean:

Business optimism abounds in the Aegean region of Turkey, following a new wave *of industrial investment.*

NEXT WEEK:

- New Zealand, (Monday).
- Growing Businesses, (Monday).
- Management Education and Development, (Tuesday).
- Tunisia, (Wednesday).
- Southampton, (Thursday).
- Vehicles and the Environment, (Friday)

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Neil Bush 'not involved in criminal activity'

By Peter Riddell, US Editor, in Washington

NO evidence exists that Mr Neil Bush, the son of President George Bush, was involved in criminal activity in the Silverado savings and loan collapse, Mr Richard Thornburgh, the US Attorney-General, claimed yesterday.

The failure and rescue of large parts of the savings and loan or thrift industry is now attracting vast public attention in the US, providing daily front-page articles and bigger television coverage than any other domestic issue.

It is also producing considerable public anger, according to opinion polls.

Democrats and Republicans have been engaged in fierce exchanges over who is to blame, ahead of this November's mid-term elections where the focus is on which candidates may have received political contributions from savings and loans.

While Mr Neil Bush is a bit-part player in the overall scandal, allegations that as a director of the failed Silverado thrift he violated conflict of interest and disclosure rules in decisions on $100m (£55.86m)-worth of loans to a close business associate have personalised the issue and created serious political problems for the White House.

Mr Thornburgh said yesterday the Justice Department was "not aware of any evidence or any allegations from a credible source of participation by Mr Neil Bush in any criminal activity or misconduct". He drew a distinction between criminal involvement, which comes under his department's jurisdiction, and any possible civil liability or infringement of regulations which is being separately considered.

The Federal body handling the rescue will shortly decide whether to bring a civil suit totalling up to $200m against Mr Bush and his fellow-directors, while the Office of Thrift Supervision, the main regulator, has arranged a public hearing for late September. The collapse of the Denver-based Silverado will cost US taxpayers around $1bn.

Republicans have accused Democrats of singling out Mr Neil Bush unfairly, though they have admitted he may have been foolish and naive.

Mr Thornburgh said there was criminal activity in about a third of the failures, wrongdoing in a further third where criminal activity cannot be proven, with the remaining third collapsing because of stupidity.

Mr David Cooke, executive director of the Resolution Trust Corporation, responsible for the rescue, said the corporation was about 25 per cent through the operation so far, in terms of assets handled and unloaded. A total of 456 institutions have come under Federal control, and of these 209 have been disposed of or closed.

The currently expected total coming under federal control is 700 with $400bn of assets.

He warned that another 200 institutions with another $200bn or so could be vulnerable. The latest estimates of the cost to taxpayers is $130bn in present value terms, but Mr Cooke said the total could be three times as much, if all the interest paid over the life was added in.

Demonstrators link arms as they cross Crimea Bridge during a mass anti-communist rally in Moscow yesterday. The tens of thousands of protestors gathered at the Kremlin walls to demand drastic curbs on the party's power.

First Sino-Soviet venture due to be signed

AN agreement to set up the first Sino-Soviet joint venture in China is expected to be signed within two months, AP reports from Peking.

The two countries already have about 20 joint ventures, mostly restaurants, in the Soviet Union. But the planned flax textile firm in Inner Mongolia would be the first in China, the English-language Business Weekly reported yesterday.

The flax mill will be equipped with 7,100 spindles on 100 machines and is expected to be completed in 1992, according to Ji Jun, deputy director of the Textiles Ministry's international co-operation department. The project in Baotou, 155 miles south of the Soviet border, will include a flax seed production base.

In the 1950s, the Soviet Union sent thousands of technical advisers to help develop China. That co-operation ended when the two Communist powers split over ideological and other differences at the end of the decade.

Relations have warmed in recent years, and diplomatic ties were normalised last year when Soviet leader Mikhail Gorbachev visited Beijing for the first summit in 30 years.

Trade has developed correspondingly. Last year's trade volume was estimated at $3.2bn, or more than 14 times that of 1981.

Brady gives pledge on futures trading

By Peter Riddell

THE Bush Administration will not seek further changes in the jurisdiction of the Commodity Futures Trading Commission if the US Congress agrees to move supervision of stock index futures from the CFTC to the Securities and Exchange Commission

This assurance has been made by Mr Nicholas Brady, the Treasury Secretary, as he faces an uphill battle to win congressional backing for his proposal on stock index futures, a hedge on future movements in share prices. He has argued strongly in favour of both stocks and stock index futures being under a single regulator, the SEC.

However, Mr Brady's plan has been strongly opposed both by the CFTC and by the futures markets, notably in Chicago. The latter have strong support on the Senate Agriculture Committee, which oversees the markets, and on the influential Illinois delegation in Congress. The change has been backed by the securities industry and the SEC.

In face of this opposition, Mr Brady has sought to deal with the fears of the futures industry and some congressmen that shifting oversight of stock index futures is just the first stage of a wider overhaul of the CFTC, as has been considered by the Treasury. One option previously floated has been a merger of the CFTC and the SEC, which is strongly opposed by the former.

Mr Brady has now told a Senate committee that "stock index futures are all that needs to be fixed. If the proposal passes in its present form, I will oppose additional, sweeping changes to the CFTC's jurisdiction". The issue is expected to be resolved within the next few weeks.

Mr Brady feels strongly on the question, both because of his own Wall Street experience as former head of the Dillon Read securities group and following the presidential commission he headed into the October 1987 stock market crash. He argues that in practice, stocks and stock index futures are a single market and should be regulated as such.

Opponents have argued that the focus should be on computerised programme trading.

Cambodian peace outlook dim as Security Council meets

By Robin Pauley, Asia Editor, in London and John Pedler in Kompong Speu

THERE is deepening international gloom about peace prospects in Cambodia as the five permanent members of the United Nations Security Council meet again in Paris today and tomorrow in search of a settlement.

The five – the US, Soviet Union, China, France and Britain – are themselves noticeably more pessimistic than when they first met on the issue in January. "The mood has changed. The chances of peace appear a little more elusive each day, but we must go on," said a French diplomat. A US official concurs: "There is no sense of moving forward but a sense of regression."

Delegates to today's talks face two main problems. The first is that an attempt to get a ceasefire agreement from the four warring Cambodian factions, and their consent that the UN should provide an interim administration in Cambodia pending elections, broke down in June when the Khmer Rouge walked out of peace talks in Tokyo.

Later that month, high-level talks between Vietnam, backer of Hun Sen's Cambodian Government, and China, the UN Security Council permanent member which persists in arming the Khmer Rouge, broke down largely over Cambodia.

Solutions are unlikely and without them France has made plain that it will refuse to reconvene the Franco-Indonesian-sponsored international peace conference on Cambodia.

In the country itself, the economic crisis is as worrying to the Phnom Penh government of Hun Sen as the military successes of the Khmer Rouge who were forced from government by a Vietnamese invasion in 1978 after killing an estimated 1m people during four years in power.

The western sanctions against Cambodia mean the country has no access to foreign loans or financial aid and is desperately short of capital. Inflation is rising sharply and, since the civil war began in the countryside following the withdrawal of the Vietnamese occupation forces last autumn, the riel currency has lost more than half its value.

There is thus a shortage of fuel, making it more difficult for the military to relocate rapidly.

Western media reports of heavy fighting for the town of Kompong Speu, 50 minutes' drive from Phnom Penh, turn out to be heavily exaggerated.

The road from the capital to Cambodia's main port of Kompong Som remains open to civilian and military traffic, whether or not they are in convoy, contrary to some reports. Officials also deny that the important road from Phnom Penh to Sisophon and Poipet near the Thai border has been closed, as was widely reported.

Venezuela to encourage debt-equity conversions

By Stephen Fidler, Euromarkets Correspondent

VENEZUELA is altering rules for the conversion of foreign debt into equity to encourage investment in large industrial projects.

The changes were disclosed to bankers in London by Mr Miguel Rodriguez, the Venezuelan Minister of Finance, and Mr Pedro Tinoco, the central bank governor.

Venezuela has had in place for some time a debt-to-equity auction system, but has been persuaded such a system is difficult to operate for big projects.

Eligible large projects will be specifically designated by the Government, while an auction system will remain in place for smaller conversions.

A petrochemicals project involving Petroleos de Venezuela, the state petroleum company, and US and German partners is among the first likely to benefit from the new rules. Morgan Grenfell is arranging the deal.

J Henry Schroder Wagg is arranging a forest products project, which is expected to be eligible, involving Bowater and Abitibi. This project is said to be valued at about $600m (£335.19m).

Debt-equity conversions are limited for monetary reasons to $600m a year. But in talks in London, Venezuelan officials indicated that next year this limit might be increased if conditions permitted.

The officials, in London to promote a debt-reduction package under the Brady initiative covering public foreign debt, also said they expected to make firm proposals in August about private-sector debts to foreign creditors.

These debts, amounting to about $3bn, have proved an obstacle in improving relations between Venezuela and some foreign creditors. The proposals are likely to involve a "menu of options" to be used as a basis for negotiation between a private-sector debtor and its creditors.

Bombs rock Hyderabad

SEVEN bomb explosions rocked Hyderabad yesterday, killing at least 35 people and injuring scores more, hospital and police officials said, AP reports from Hyderabad.

No one has claimed responsibility for the bombings but police suspect Sindh nationalists, who are demanding either greater autonomy or independence from Pakistan.

The Sindh nationalists, who dominate most of the countryside, regularly clash with members of the Mohajir Qami Movement (MQM), representing Indian immigrants to Pakistan following partition in 1947.

The Mohajirs have been pressing for recognition as a fifth ethnic nationality.

Sindh nationalists had called a one-day strike yesterday to protest against the arrest several weeks ago of Qada Magsi, a Sindhi activist, charged with inciting violence.

Most Mohajirs, who dominate Hyderabad, a bitterly divided city of three million, refused to honor the strike call, prompting the bombings, police speculated.

Meanwhile, eyewitnesses in Hyderabad said paramilitary troops opened fire on wailing mourners who had gathered outside a local hospital, where many of the dead were taken.

Three people were killed in the firing, according to several witness accounts.

At least 3,000 police, paramilitary troops and soldiers patrol Hyderabad and thousands more have reportedly been stationed in Karachi.

Prime Minister Benazir Bhutto has acknowledged that the Sindh government, headed by her Pakistan's People's Party, has not done enough to stem the rising tide of violence in her home province.

Ms Bhutto, who came under heavy fire during violence in late May for not acting quickly enough, is in Bahrain, on the final leg of a five-nation tour of Islamic countries.

Haitian political crisis mounts

By Canute James in Kingston

THE political situation in Haiti, which has been deteriorating over the past two months, is likely to get worse today after a row within the interim government.

The Council of State, which is assisting Mrs Ertha Pascal-Trouillot, the interim President, has threatened to fire her by noon unless she orders the arrest of two men who had senior positions in the Duvalier dictatorship and a subsequent military government.

The threat to Mrs Pascal-Trouillot, who says she wants to take the country to presidential elections in November, follows indications that senior military officers opposed to government by civilians, and loyalists of the former Duvalier dictatorship, are collaborating to force cancellation of the voting.

Trade unions and political parties, which organised a one-day general strike last week, have threatened further strikes unless the two former officials are arrested.

Mr Roger Lafontant, the Interior Minister in the last years of the Duvalier dictatorship, returned from exile in the neighbouring Dominican Republic 10 days ago. He is alleged to have had links with the "Tontons Macoutes", the feared praetorian guard of the Duvalier family.

Also recently returned to Haiti is former General Williams Regala, an aide of ex-President Jean-Claude Duvalier and Interior Minister in a subsequent military government.

The Electoral Council, which is planning the November 4 election, has accused Mr Regala of involvement in the deaths of prospective voters in 1987, when armed gangs, with the tacit support of the army, killed 34 people outside polling stations, forcing the postponement of presidential elections.

Government officials have said there are no charges on which the two former officers can be arrested.

But diplomats in Port-au-Prince, the capital of the Caribbean republic of 6m people, have said that there is significant support for Mr Lafontant and Mr Regala from sections of the armed forces and among ultra-conservative supporters of the dictatorship.

Assad visit signals shift in relations with Cairo

A THREE-DAY visit to Egypt by President Hafez al-Assad of Syria, which ends today, signals a shift away from the balance of power prevailing in the Arab world through the 1980s, Max Rodenbeck reports from Cairo.

The warm welcome given to Mr Assad ended a 13-year estrangement and capped a rapprochement between the two countries, which were allied during the 1967 and 1973 Middle East wars but split over Egypt's peace with Israel.

Officials said the talks between Mr Assad and Egypt's President Hosni Mubarak focused on Lebanon and the Palestinian problem. Observers said the two countries, worried by Israel's right-wing government, hope more effectively to promote an Arab peace agenda by combining efforts.

But Arab and Western diplomats suggest rifts between Syria – and Iraq and the Palestine Liberation Organisation – ranked high on the agenda. Egypt, which has good relations with Iraq's President Saddam Hussein and PLO chairman Yassir Arafat, has been to the fore of Arab efforts to reconcile them with Syria. Observers note that both the PLO and Iraqi ambassadors to Cairo were in Alexandria to greet Mr Assad.

While Egypt, which backed Iraq in the Gulf War, has enjoyed rising regional prestige, Syria's Arab standing has declined along with the fortunes of its allies Iran and the Soviet Union.

University shut after protests

THE Zambian Government has shut down the country's main university in Lusaka two weeks after student-led protests left at least 26 people dead, AP reports from Lusaka.

The Sunday Times of Zambia said university vice-chancellor Kasuka Mwauluka announced the closure. However, a university professor said the shutdown was ordered by President Kenneth Kaunda's ruling party to avoid further rioting. On June 25, students began Protests that escalated into five days of rioting and looting.

At least 34 students accused of inciting the riots are being detained.

Brazil begins to privatise, with a difference

Officials say financial sector must pay for years of high profits, Christina Lamb reports

NO ONE could ever accuse Brazil's stunt-loving President Fernando Collor of acting moderately, but even by his standards the country's forthcoming privatisation programme is a little ambitious.

Government officials say the process has been modelled on Britain's programme. But Mrs Thatcher would surely have paled at the idea of selling one state company a month to raise $7bn (£3.91bn) in six months and a further $10bn by 1992, all of which will go to paying off the huge public debt.

This is privatisation with a difference. Though Brazil comes late to the game, they have added a new, and to many, unsavoury twist. Officials say it is time for the financial sector to pay for the years of high profits under hyper-inflation. In the government's bid to raise cash to convert an 8 per cent budget deficit to a surplus, it is forcing banks, pension funds and brokerages to buy $5bn-worth of privatisation certificates (CPs), whether they like it or not.

Most do not. To avoid legal battles, with banks arguing that the compulsory purchase of privatisation certificates is unconstitutional, the rules have been relaxed. The timetable for the purchase of CPs has been extended from six to 12 months, with the first lot issued today, and the compulsory purchase level cut from $7bn to $5bn. Net flow of resources this year will thus be only $2.5bn, or half a per cent of gross domestic product, forcing the government to revise its budget estimates.

The biggest chunk of money will come from pension funds. State pension funds must use 25 per cent of reserves in the programme, an estimated $3.2bn, while private-sector pension funds must use 10 per cent of reserves, relaxed from 15 per cent. Private banks, including foreign ones with retail branches in Brazil, must buy CPs for the value of 3 per cent of assets or 18 per cent of net worth, whichever is lower. This will provide an estimated $1.5bn. If the CPs are not used to buy shares, then from the moment the first state company comes up for auction, CPs will lose value as their protection against inflation is slowly reduced.

"This is not privatisation. It is blackmail," says a European diplomat. Mr Fred Gibbs, head of Lloyds Bank in São Paulo, complains: "We are not happy about this. It is no more than another form of taxation". Mr Gibbs, who calls the CPs "biodegradable instruments", says the banks lose either way. "The unpleasant reality is we are being forced to convert just over $14m of our capital into paper which effectively loses value as soon as privatisation is under way, or shares in something with an undefined future".

Constitutional restrictions mean Brazil is launching the programme not with public services but less glamorous manufacturing companies which are hardly household names. The first company to go under the hammer will be Usiminas, which in 1989 was the biggest steel producer in Latin America with record profits of $239m. Its sale is expected to raise $1bn.

Mr Eduardo Modiano, president of the National Development Bank (BNDES), which is due to oversee the privatisation, says they are preparing 11 companies, mainly in manufacturing. He hopes the first auction will take place in October. He defends the pace.

The problem "is getting things started. Once we start we can do at least one a month. That does not mean we're privatising one British Steel or British Telecom a month. The companies will range from anything from $40m to $2bn in value."

Mr Modiano says they hope to privatise 40 manufacturing companies by 1992, raising $17bn, then begin on the more controversial infrastructure and ports, to bring proceeds up to $40bn and finally tackle public services, to reach a grand total of about $80bn.

Usiminas will be followed by Petroquimica Uniao and Copesul, both petrochemical companies, and Siderurgica de Tubarao (CST), Brazil's fourth largest steel producer, 10 per cent of which is owned by Kawasaki Steel and Finsider of Italy. These are likely to be followed by fertiliser companies. Mr Modiano says: "Our plan is to do two large companies and four small ones this year", admitting: "They are a mixture of good and bad".

No state control will be retained and foreign companies can buy any amount, although with a limit of 40 per cent on voting share which Mr Modiano claims is "the most liberal privatisation programme ever undertaken in terms of foreign capital".

Whether foreign investors are that interested is another matter. Several funds that have been set up are for debt conversions. Banco Bolzano Simonsen is planning three funds, European, Canadian and Japanese, of around $75m each, but all using debt. One European banker says: "No one wants to invest money, they're just writing off a bad debt on which no interest is being paid for a share in a company which may or may not make a profit".

The sales are expected to provoke many problems from unions who oppose privatisation. But Mr Modiano argues: "The government has run out of money for keeping up Brazil's industrial base. The alternative would be closing the companies, and 100 percent dismissal". However, "we'll have to run a campaign explaining who pays for state inefficiency and state overstaffing. It's going to be tough."

Prague evacuates citizens from Havana

A GROUP of about 30 Czechoslovak citizens, mostly women and children, left Cuba quietly yesterday as Prague and Havana maintained a tense diplomatic stand-off over 12 Cuban refugees sheltering in the Czechoslovak embassy, Reuter reports from Havana.

The voluntary evacuation came after five Cubans demanding to leave the country forced their way into the house of a Czechoslovak diplomat on Thursday.

There were no special formalities or protection at Havana airport for the departing Czechoslovaks, who boarded a regular flight to Prague.

Tension has been rising between Cuba and its former communist ally over the case of 12 Cubans granted refuge at the Czechoslovak embassy last week and of five others occupying the house of Mr Jan Domok, the *chargé d'affaires*.

In a separate development, Cuba apologised to Spain over an incident last Friday in which security police followed an asylum seeker into Spain's Havana embassy and dragged him out.

Dominican poll result

Mr Juan Bosch, the opposition leader who was finally declared the loser in the Dominican Republic's presidential election held two months ago, called on Saturday for a period of national mourning to "bring an end" to the government, Reuter reports from Santo Domingo.

Late on Friday the Central Electoral Commission announced a final count that declared incumbent president Joaquin Balaguer, 83, the victor in the May 16 election.

The commission said Mr Balaguer won with 24,744 votes out of 1.9m cast. Fraud charges had delayed the final count.

Mr Bosch's Dominican Liberation Party said the mourning period would last for 48 hours, beginning today, when people would be asked to stay at home.

Somalia trial opens

Police fired into the air yesterday to disperse hundreds of demonstrators shouting anti-government slogans at the start of a trial of 42 prominent Somalis who called for political reforms, Reuter reports from Mogadishu.

Security forces in anti-riot gear cordoned off the area around the court building in Mogadishu. The 42 accused were charged with publishing and distributing a manifesto two months ago which called for the removal of President Mohamed Siad Barre and the setting up of a caretaker government.

Chinese mine deaths

Forty-five workers were killed and 11 injured in a coal mine explosion on Friday in the northern Chinese province of Shandong, local radio reported, Reuter reports.

A Shandong radio report, monitored by the BBC, said an "extremely serious" explosion ripped through the colliery. The exact location of the mine is unclear.

The radio said 56 miners had been rescued. Five of the injured were in serious condition but the other six were not badly hurt.

Shandong's vice-governor Song Fatang has been assigned to deal with the accident and launch an investigation.

Attempts to reach provincial officials by telephone yesterday were unsuccessful.

US car sales strong

US sales of domestically-built cars (including those from Canadian and Mexican plants) reached an annual rate of 7.35m in the first selling period in July, writes Anthony Harris in Washington.

This is down from the strong 8.1m rate achieved in the final period of June, but is well above expectations; sales in the last three weeks are the strongest since January and mark a recovery to 1989 rates.

Stocks of unsold cars are estimated to stand at 57 days' sales, a little below the industry optimum of 60 days.

The Financial Times (Europe) Ltd. Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1; Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1990.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: B. Hughes, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Sir Geoffrey Owen. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Ostergade 44, DK-1100 Copenhagen-K. Denmark. Telephone (01) 13 44 41. Fax (01) 935335.

INTERNATIONAL NEWS

Italy eager to make early mark in EC presidency

By David Buchan in Brussels

ITALY starts its presidency of the EC with a flourish by proposing today that the Community establish a special development bank for the Mediterranean region, as it has already helped to do for east Europe.

Mr Gianni De Michelis, the Italian Foreign Minister, is also expected to put to fellow EC foreign ministers his plan that Community states raise their spending on development aid to 1 per cent of their gross national product, of which half would go to the Third World and a quarter each to east Europe and the Mediterranean region.

However, most EC states and the Commission are likely to treat both ideas coolly.

Opposition will come not only from states like Britain, which is notoriously tight with EC cash. Although the Commission shares the analysis of worrying economic and social trends in the Maghreb countries that Mr De Michelis will present today in his paper to foreign ministers, it believes the remedy lies in existing financial institutions.

Last month it proposed the European Investment Bank should be used as the lending vehicle for half the Ecu3.2bn (£2.1bn) which Brussels believes should be spent over the 1992-96 period to stop states along the southern and eastern shores of the Mediterranean falling further behind the EC.

Gianni De Michelis: seeks to raise development aid

The Mediterranean flavour of the foreign ministers' meeting will be further enhanced this evening when Malta becomes the second island this month to apply for full EC membership; last week Cyprus put in its more problematic bid to enter the group.

Both applications effectively go into the Community in-tray marked "post-1993", the intended date for the single EC market. Only in September will foreign ministers formally ask the Commission for an opinion on the Cypriot and Maltese applications, and the Commission predicts it will take a good two years to produce this.

Brazil seeks to halt coffee talks

BRAZIL is to request the cancellation of a key meeting of the International Coffee Organisation (ICO) scheduled for July 23, Mr Joao Cunha, a senior economy ministry official, said on Friday, John Barham writes from São Paulo.

Mr Cunha's statement ends a week of speculation that Brazil might support a return of the coffee export quota system that collapsed a year ago.

However, Mr Cunha said Brazil's position in relation to the quota agreement was to not participate until producers, roasters and exporters had been consulted. The Government plans to base its policies on a consensus of the local coffee trade's views.

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		May.'90	Apr.'90	Mar.'90	May.'89
UK (£bn)	exports	8.923	8.647	8.399	7.629
	imports	10.445	10.451	10.485	9.599
	balance	-1.522	-1.804	-2.086	-1.970
France (FFrbn)	exports	96.788	94.420	100.327	93.826
	imports	102.470	98.800	101.436	99.615
	balance	-5.682	-4.380	-1.109	-5.789
Japan (US$bn)	exports	21.485	20.759	23.652	21.836
	imports	18.191	16.827	17.211	15.983
	balance	+3.294	+3.932	+6.441	+5.853
		Apr.'90	Mar.'90	Feb.'90	Apr.'89
US ($bn)	exports	32.307	33.494	31.818	30.969
	imports	39.247	41.656	37.916	38.615
	balance	-6.940	-8.362	-6.098	-7.646
W. Germany (DMbn)	exports	53.90	55.50	54.10	52.80
	imports	44.80	43.50	42.90	41.90
	balance	+9.10	+12.00	+11.20	+10.90

World Bank turns development spotlight on poor

Report highlights links between poverty, population and the environment, writes Peter Montagnon

A two-pronged strategy for promoting development by attacking the plight of the world's poorest people is proposed by the World Bank in its annual World Development Report, published today.

Policies in the developing world to foster labour-intensive growth while providing a widespread array of social services targeted at the poor in the field of education and basic health care could reduce the numbers living in absolute poverty by more than 300m between now and the end of the century, the report says.

More than 1bn people in developing countries are condemned to live on an income of less than $370 (£206.70) a year, it adds. Some 30m children die each year before the age of five from causes that would not normally be fatal in rich countries. About 110m children worldwide, or one in five of the relevant age group, receive no primary education.

Although it describes these statistics as "shameful", there is more than mere sentiment behind the Bank's decision to concentrate on poverty as the central objective of development policy in this year's report.

The report is published at a time of growing international awareness of the inter-relationship between the plight of the poor and two other problems of global significance – the environment and population, both of which are often made more acute by material deprivation.

Although living standards have risen, even for the very poor, in the past 10 years, their plight has frequently been overlooked as aid donors have concentrated spending on projects designed to bring them political and commercial advantage. For their part, developing country governments have sometimes neglected the poor as they sought to grapple with economic shocks, such as the debt crisis of the 1980s.

The adoption of policies designed to promote economic adjustment and growth does not necessarily conflict with the objective of providing basic welfare for the poor, however. "Both parts of this strategy are essential. One without the other is not sufficient," said Mr Stanley Fischer, World Bank chief economist, in a presentation of the report to the press last week.

None the less, developing country governments also need to provide well-targeted transfers and safety nets to support the most vulnerable among their populations, such as the sick and old.

The report suggests that high growth alone cannot lift the poor out of their plight, nor can policies designed to redistribute wealth. Instead, growth must aim to develop labour-intensive industries in which the poor have a part to play.

At the same time, governments must invest in the human capital of the poor through social services designed to improve their immediate well-being and take advantage of newly-created job opportunities.

This can often be done without recourse to increased budgetary spending, even though budgetary resources may have to be re-allocated in ways that are politically sensitive as they can be to the detriment of the better-off.

The report cites Indonesia and Malaysia as two countries that acted decisively during the 1980s to stabilise their economies and establish a framework for economic restructuring that was fully consistent with the continued reduction of poverty. But it says that Ghana in the 1970s made the mistake of taxing farm output to the tune of 63 per cent while providing only 3 per cent of value-added in support.

As a result its farm output fell by more than 1 per cent a year.

Besides low taxation of farming, the poor can also be helped by reducing labour restrictions, such as minimum wages, which tend to reduce the formal labour force and add to the informal sector.

Make-work programmes such as those introduced by Chile can help mitigate the effect of recession while improving the infrastructure, the report says. Food subsidies can be targeted to ensure they do not confer greatest benefit on the better-off.

This can be done without neglecting fiscal discipline, as current spending is often badly directed.

In the area of social welfare, for example, spending is often skewed away from the poor. Governments put too much money into high-level training and hospitals while neglecting primary health care and education. This is especially so in Africa, where budgets are not keeping pace with population growth.

Although developing countries must bear a heavy responsibility for alleviating poverty, the developed world can help by limiting trade protection and targeting its aid.

The bulk of concessional lending to the poorest countries through the World Bank's International Development Association soft-loan affiliate is reserved for countries making a conscious effort to alleviate poverty.

The report suggests the Bank should place greater emphasis on this criterion in its normal lending, as should national aid donors.

In 1988 about 41 per cent of all western official aid went to middle-income countries. Reducing poverty "is usually far from the most important" motive of donors. But aid could be increased as well as better spent, it adds, noting that a cut of just 10 per cent in Nato defence spending would pay for a doubling of aid.

This year's report forgoes the usual high- and low-level scenarios for world economic growth. Instead it forecasts that the industrial world will grow at an average real rate of 3 per cent in the 1990s. This would permit developing country growth of 5.1 per cent, a rate high enough to alleviate much poverty in south Asia, one of the regions in which it is heavily concentrated.

But per capita income in sub-Saharan Africa would grow by only 0.5 per cent, and the report projects that the numbers living in absolute poverty in this region could grow by nearly 100m.

"Only through exceptionally bold action by the international community and the governments of the region can this [increase] be avoided," it says.

The target of reducing the numbers living in poverty and preventing any increase in Africa is "ambitious, but achievable" by the end of the century. The costs would be "massively outweighed by the advance in human welfare that a sustained attack on poverty would bring."

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WORLD BANK GROWTH PROJECTIONS (%)

	Real GDP Growth 1980-89	Real GDP Growth 1989-2000*	Change 1980-89	Per Capita 1989-2000*
Industrial countries	3.0	3.0	2.5	2.6
Developing countries	4.3	5.1	2.3	3.2
(Sub-Saharan Africa)	1.0	3.7	-2.2	0.5
China	10.1	6.8	8.7	5.4
India	5.8	5.2	3.5	3.4
Eastern Europe	1.4†	1.9	0.6†	1.5
Latin America	1.6	4.2	-0.6	2.3

*Forecast † estimate. Source: World Bank

INTERNATIONAL NEWS

BUSINESS INVENTORY POINTS TO REMARKABLE RECOVERY

European industry 'faces future with confidence'

EUROPEAN industry has made a remarkable recovery, has restructured itself and is viewing the future with confidence, according to a new inventory of EC businesses produced by the European Commission, Lucy Kellaway reports from Brussels.

The study, of more than 1,000 pages, shows investment in the past decade has risen by 30 per cent, and is now by far the most important source of GNP growth, while industrial production is up by 20 per cent, and growing at between 4 and 5 per cent a year.

In an exhaustive analysis of 165 sectors, the study traces the major structural change that has taken place in most industries, spurred by growing competition from the Far East, and encouraged by the single market. The changes have consisted of:

- rationalisation: companies have been cutting their workforces, investing in capital-saving equipment and becoming more sparing in their use of energy and raw materials;
- greater flexibility in terms of production techniques;
- employing outsiders to do tasks once done in-house, such as cleaning and accounting;
- a wave of joint ventures and mergers to help companies get into new markets or increase their competitive position;
- a change in product range, with some industries (textiles and chemicals, for instance) reducing the number of products they make, while others have been diversifying into new products to increase protection against business cycles.

An analysis of the 70 biggest Community companies discloses that, although they have made great strides in productivity, they are still less profitable than their US counterparts. Net profit as a percentage of turnover in Europe was 4.2 per cent in 1988, against 1.2 per cent in 1983.

However, the comparable figure for the US is about 1.5 percentage points higher.

During the decade, the EC improved its trade balance with the rest of the world, with machinery and chemical products the two sectors making the largest contribution to the improvement.

The EC continued to draw in foreign investment, mainly from the US and Japan, although where more than 60 per cent of direct US investment in the EC went into manufacturing, the figure for Japan was just 16 per cent.

Air transport VAT: an EC minefield

Few sectors present more intractable problems, writes **Paul Abrahams**

THE European Commission's efforts to tackle the thorny issue of differing value-added tax rates ahead of 1992 has entangled it in a political and technical minefield.

In few sectors is the problem more intractable than air transport, where an attempt to simplify current rules is being bogged down in ever-greater complexities.

"Fiendishly difficult" is how one Brussels official described the challenge. One EC airline was less diplomatic, accusing the Commission of "another crazy muddle".

The theory is simple enough. The Commission wants to align VAT rates in different member states closely to prevent distortion of competition or patterns of trade. The programme envisages harmonisation of VAT on all transport, by air, rail or sea. Passenger transport would fall into the 4-9 per cent band of tax, freight in the 14-20 per cent band.

At present, VAT is charged on domestic flights at varying levels in various EC states. Belgium and Luxembourg are small enough to dispense with domestic flights, while in the UK, Ireland and Denmark, air travel is either exempt from VAT or zero-rated.

In other countries, the rate varies from 5.5 per cent to 18 per cent, with no VAT on flights to destinations outside the EC. Collecting VAT on domestic flights is not too hard just now, since a single rate is paid to a single authority.

But EC airlines claim that after 1992, when intra-Community flights will be classified as domestic, consequences could be catastrophic. One main complaint is that the proposals would dislocate an established pattern of competition, generally placing EC carriers at a disadvantage to non-EC competitors.

They say one consequence would be to distort traffic flows. Passengers travelling from Frankfurt to Faro, Portugal, would find it cheaper to fly first to a non-EC hub, such as Geneva, then to Faro, rather than travel directly.

Passengers living in Munich would find it cheaper to drive to Zurich rather than start from their local airport. Another blow would be the proposed abolition of duty and tax free sales at EC airports, making Swiss and Austrian airports more attractive to travellers.

A similar distortion would be created, the airlines say, by differing tax-rates for direct flights to EC destinations and those with stop-overs. A flight from New York to Rome would be cheaper than the same trip including an Amsterdam stopover.

Some airlines and airports trying to capture more passengers by setting up hub and spoke feeder routes could find their inter-continental traffic severely hit. The airlines argue that VAT on intra-EC travel would make non-EC holiday destinations more attractive for consumers. Turkey, say, could thus be a better bargain for holidays than Greece. Locations of business conferences might also be affected.

THE EUROPEAN MARKET

Introduction of VAT could lead to variations in ticket prices for the same journey between two EC cities, since VAT on each ticket would be levied in the country of departure. Under current proposals, the difference could be up to 5 per cent.

Another problem for the airlines is the threat of extra administration overheads. Take a simple return journey between London and Rome. The principle of charging the rate of the departure country applies also to return trips. This means the travel agent would have to calculate the British VAT for a flight from London to Rome, then make a separate calculation in lira for the Italian tax on the return journey, then convert that sum from lire to sterling.

Calculations for a complicated trip would be more difficult. If the passenger changed his itinerary, VAT would have to recalculated. The cost of running such a system would be immense, says the Association of European Airlines (AEA) representing the region's 23 biggest airlines. It adds that airlines already face higher airport charges because of abolition of duty and tax-free sales, and any airline deregulation benefits could be nullified.

KLM Royal Dutch Airlines expects to raise the price of intra-Community flights by 14 per cent resulting from loss of tax-free sales income. The AEA says it will prove hard, if not impossible, to ensure non-EC airlines pay the VAT due on intra-Community tickets paid for outside the EC.

More than 40 such airlines enjoy the right to operate intra-Community flights, and there are no proposals on how VAT might be collected from them. The AEA says that if non-EC airlines failed to pay VAT, they would have a advantage over VAT-paying EC airlines.

The AEA claims passengers will find themselves paying more than just extra VAT as a result of its standardisation for the single market. It argues the cost of lost traffic and administration costs, along with VAT, will boost the cost of air tickets in countries at present zero-rated to at least 11 per cent, perhaps up to 15 per cent.

The Council of Ministers has been wrestling with these issues for almost three years. Unless the Commission decides to revise its proposals, progress to date suggests the EC will still be arguing over them well beyond 1992.

Warning on Uruguay Round talks

By Peter Montagnon, World Trade Editor

THE URUGUAY ROUND of multilateral trade talks will move into crisis if the EC does not support the de Zeeuw proposals for negotiating farm reform, including special focus on reducing export subsidies, Australia's Trade Negotiations Minister warned at the weekend.

The testing time would come at the Uruguay Round Trade Negotiating Committee (TNC) session, which is due to start in Geneva next week, Mr Neal Blewett, the minister, said.

The de Zeeuw proposals, setting out the basis for negotiation in the core areas of export subsidies, internal support and import barriers, were "commended" but not endorsed by industrial country leaders at the Houston summit last week.

Mr Blewett said this meant that they could not now be disowned. If any participant tried to alter them, the whole would unravel, and the Uruguay Round, which depends on the farm talks for its momentum, would be stalled.

The Cairns Group of independent farm exporters, chaired by Mr Blewett, has adopted the de Zeeuw proposals despite certain reservations.

Prising a similar endorsement from the European Community would be the main task in Geneva next week.

Only later would detailed negotiations on the aggregate measure of support and the tariffication of import barriers begin.

UK NEWS

NEWS IN BRIEF

Britain leads the world at eating snacks

BRITONS lead the world in gorging themselves on snacks, according to a report published today by Euromonitor, a market analyst. The annual intake per head is 23 pounds of biscuits and 16 pounds of savoury snacks such as crisps and nuts.

By consuming the equivalent of 60 packets of biscuits and 280 bags of crisps for each adult and child, the UK out-eats Australia and the US – second and third respectively in both product categories.

Although Britain is unlikely to lose its pole position, Euromonitor expects the strongest growth in the world's 10 largest snack markets to be achieved in Italy, which currently ranks fifth in biscuits and last in savoury products.

Biscuits and Savoury Snacks: Euromonitor, 87-88 Turnmill Street, London EC1M 5QU.

Skills shortage

MANUFACTURING companies in Birmingham are finding increased difficulties in attracting staff, according to a survey by the Birmingham Chamber of Industry and Commerce.

Some 83 per cent of manufacturers responding to the survey reported difficulties in recruiting staff over the past three months. The figure represents a 16 per cent increase from the previous quarter.

Manx bank pay-out

DEPOSITORS in the collapsed Savings and Investment Bank will today be able to collect their first pay-out from the bank's liquidators, eight years after the bank's failure. The bank, based on the Isle of Man, collapsed with £42m debts and 2,000 creditors.

The liquidators have recovered £13m so far. Recovery costs are £4.7m. This first interim dividend is 15p in the pound with a deduction of 2.87p in the pound for 400 depositors who agreed to support legal action against the Manx Government for damages. There may be a further dividend.

Knowsley by-election

MR Leslie Byrom is to fight the seat of Knowsley South for the Conservative Party. The by-election is caused by the death last month of Mr Sean Hughes, the Labour MP whose majority at the 1987 general election was more than 20,000.

Commercial vehicle sales in June 22% down on last year

By Kevin Done, Motor Industry Correspondent

SALES OF new commercial vehicles in June were 22.3 per cent lower than a year ago, the steepest monthly fall of the present recession.

UK commercial vehicle sales began to fall sharply in the final quarter of last year. The drop into recession was led by a steep fall in sales of new trucks.

In recent months, however, the decline in sales of light commercial vehicles has also begun to gather pace.

In June alone, new commercial vehicle sales totalled 22,046 compared with 29,668 a year ago, a drop of 22.3 per cent, according to figures from the Society of Motor Manufacturers and Traders (SMMT).

In the first six months, sales fell by 16.3 per cent to 164,574 from 196,630 a year earlier.

Sales of imported vehicles have fallen more heavily and accounted for 38.8 per cent of the UK market in the first half of 1990, compared with 40.4 per cent a year ago.

In June alone, sales of vans up to 1.8 tonnes gross vehicle weight, largely car-derived vans and microvans, were 13.8 per cent lower than a year ago.

Sales of medium vans from 1.81 to 3.5 tonnes, chiefly panel vans and pick-ups, fell by 26.7 per cent, while sales of trucks (above 3.5 tonnes) were 30.4 per cent lower than a year ago.

For the first half of the year, UK new truck sales were 27.9 per cent lower at 27,203. The heavy truck segment (above 15 tonnes) was worst affected, with a fall of 34.9 per cent.

DAF, the Dutch truck maker whose Leyland DAF subsidiary is the leader of the heavy truck segment in the UK, has already given a warning that it has made losses in the first half of the year.

ERF, the last remaining publicly quoted independent truck maker in the UK, has also reported that it is currently operating at a loss in the face of the recession.

The biggest sales declines this year have been suffered by the Swedish heavy truck makers Volvo and Scania, along with the ERF; Seddon Atkinson, a subsidiary of Enasa of Spain; and Foden, a subsidiary of Paccar of the US. Their sales volumes have all dropped by more than 40 per cent in the first six months.

Iveco Ford and DAF, the UK truck market leaders, have both outperformed the falling market, helped by the strength of their dealer networks.

Iveco Ford has increased its share of the truck market to 24.9 per cent from 22.4 per cent a year ago.

DAF has raised its market share to 22.5 per cent from 20.8 per cent.

UK COMMERCIAL VEHICLE REGISTRATIONS
JANUARY – JUNE 1990

	Volume (Units)	Volume Change (%)	Share (%) Jan – Jun 90	Share (%) Jan – Jun 89
Total Market*	164,574	−16.30	100.00	100.00
Imports	63,780	−19.74	38.75	40.41
Small vans (up to 1.8 tonnes)				
Total	53,427	−12.55	100.00	100.00
Imports	12,627	−28.24	23.63	28.80
Ford	18,144	−10.53	33.96	33.19
Vauxhall (GM)	16,337	−1.89	30.58	27.25
Rover	8,148	−19.64	15.25	16.60
Peugeot (Incl. Citroen)	3,713	−17.19	6.95	7.34
Renault	2,458	−21.84	4.60	5.15
Medium Vans (1.81 – 3.5 tonnes)				
Total	72,147	−16.63	100.00	100.00
Imports	32,981	−18.21	45.71	46.60
Ford	34,626	−18.14	47.99	48.88
Leyland DAF (DAF)	7,857	−6.63	10.89	9.72
Renault	5,019	−29.79	6.96	8.26
Peugeot (incl. Citroen & Talbot)	4,204	−8.53	5.83	5.31
Mercedes-Benz	3,846	−19.39	5.33	5.51
Vauxhall (GM)	3,757	−14.46	5.21	5.08
Nissan	3,059	−35.01	4.24	5.44
Trucks (over 3.5 tonnes)				
Total	27,203	−27.89	100.00	100.00
Imports	10,785	−31.38	39.65	41.67
Iveco Ford	6,774	−19.70	24.90	22.36
Leyland DAF (DAF)	6,125	−21.84	22.52	20.77
Mercedes-Benz	4,323	−24.05	15.89	15.09
Volvo	2,399	−42.04	8.82	10.97
Renault (RTI)	1,620	−27.09	5.96	5.89
Of which Heavy Trucks (over 15 tonnes)				
Total	13,791	−34.89	100.00	100.00
Leyland DAF (DAF)	3,145	−30.17	22.80	21.26
Volvo	2,074	−45.85	15.04	18.08
Iveco Ford	1,739	−14.33	12.61	9.58
Mercedes-Benz	1,704	−25.03	12.36	10.73
ERF	1,299	−44.51	9.42	11.05
Scania	1,190	−42.51	8.63	9.77

*includes buses and light four wheel drive utility vehicles
Source: Society of Motor Manufacturers and Traders and industry estimates.

Lloyd's syndicate expected to quit

By David Barchard

MARINE SYNDICATE 185, one of the largest syndicates at Lloyd's, is expected to cease underwriting at the end of this year.

The move is mainly because of heavy losses on the Piper Alpha North Sea oil rig disaster two years ago in which 167 men died after a fire broke out.

Claremount Underwriting Agency, managing agency for the syndicate, is believed to have warned its members that there are unquantifiable losses relating to Piper Alpha and so the £52m Marine Syndicate 185 should be closed off into Syndicate 2.

That means the syndicate will function after the year's end only to handle claims on past policies and will not take new premium business.

The move became inevitable after members' agents for the syndicate warned that, because of growing losses, they could not support it next year without additional underwriting to cover it against the effects of claims arising out of Piper Alpha.

The marine insurance market has been affected by a series of catastrophes in the last few years, including Piper Alpha, the Exxon Valdez oil spill, and Hurricane Hugo.

Losses are known very quickly in the marine insurance market. Thus a series of claims from disasters leaves syndicates paying out on claims with little or no investment income coming in.

One insurance industry figure said yesterday: "You have to make a value judgement in these circumstances about whether you should pull out or take a risk with new business.

"It is not uncommon to decide to close off a syndicate."

Pressure from members' agents has become increasingly common since the Hay Davison reforms enabled members of syndicates and underwriters to see each other's figures.

Mr Oliver Carruthers, editor of the Digest of Lloyd's News, said yesterday said: "It is encouraging for the Names [members] at Lloyd's that agents are prepared to show their strength and pull out syndicates for sound economic reason as opposed to leaving Names lingering on in syndicates where they risk getting strapped."

Employers back common state pension age

EMPLOYERS believe that the Government should equalise men and women's pension ages in the state pension scheme at 63, writes Eric Short.

That was one of the findings in a survey into 80 companies' attitudes towards pensions and retirement practice undertaken by Enterprise Dynamics.

Most employers, it finds, have introduced or plan to introduce a common pension/retirement age.

The survey also shows that employers are softening their attitude towards personal pensions and 13 per cent contribute more than the legal minimum.

Retirement and Pensions Practice 1890. Enterprise Dynamics, 9 Savoy Street, London WC2R 0BA. £75.

UK NEWS

Interest rates fail to curb rise in retail sales volume

By Patrick Harverson, Economics Staff

THERE was a a rise in the number of British retailers reporting higher annual sales volumes last month, according to the latest Financial Times/CBI distributive trades survey, despite Government interest rate policies designed to curb consumer borrowing and spending.

The Government and UK financial markets will be anxiously awaiting today's retail sales data for June to see if the trend is confirmed.

If today's statistics show a further rise, doubts will be cast on the Government's ability to rein back spending through its high interest rate policy.

Although the survey, published today, suggests that sales growth continues to slow down over the longer term, recent government statistics have indicated that consumer spending and personal borrowing remain unexpectedly resilient in the face of high interest rates. City of London analysts are expecting the Central Statistical Office figures today to show June retail sales between 0.5 and 1 per cent lower than 12 months earlier. In May, retail sales were 1.4 per cent up on a year before.

In the FT/CBI survey, 52 per cent of the 286 retailers polled reported higher sales last month compared with a year before, while only 25 per cent said sales were lower. The best sales increases were reported by retailers of confectionery, tobacco and newspapers, while mail order companies also did well in June.

In contrast, shops selling durable household goods, specialist foods, footwear and leather goods said sales volumes in June were below the levels of a year ago.

Although a majority of retailers expects to see further sales growth in July, the CBI believes the pattern over recent months confirms that consumer spending is slowing, if only gradually, under the weight of high interest rates.

Mr Nigel Whittaker, chairman of the survey panel, said: "Retailers reported slow, steady year-on-year sales increases in June with no immediate prospect of an improvement in trade. Expectations point to only modest sales growth in July."

Details Page 6

'Poor have become poorer since 1979'

By Rachel Johnson

THE OVERALL tax burden has risen 13 per cent, the rich have got richer, and the poor poorer since 1979, the Fabian Society, the left-wing think tank, says today.

In the second edition of Income and Wealth in the 1980s, Mr Thomas Stark, an academic, unearths statistics hidden in government reports to contradict official claims that the poor have done well out of economic growth.

The report says the top 10 per cent of households' share of all income has grown by 5 percentage points since 1985; that the next three tenths have maintained their share; but all those of the lower groups have declined. In real terms, today's report claims, the income of the top 10 per cent has increased by 43 per cent while the bottom 40 per cent suffered a decrease of up to 8 per cent.

Government fights power share plan

By David Thomas, Resources Editor

THE GOVERNMENT is opposing plans by the 12 regional electricity companies to take substantial equity stakes in independent generators after privatisation.

Most of the 12 regional companies have announced plans to take a stake in the new wave of independent generators after their privatisation, scheduled for November.

Last week, for example, South Wales Electricity, London Electricity and Southern Electric disclosed their interest in taking an equity stake in a £450m power station in Wales planned by Texaco, the US-based oil group.

Equity participation by regional electricity companies has been seen as a way to encourage a strong independent generating sector. It would guarantee that the independents could sell all their electricity, ensuring they could raise finance in the City.

The Department of Energy has told the regional companies that it sees no need for them to take equity stakes in independent generators. It argues that independent generators will be able to secure City backing on the basis of long-term supply contracts with the regional companies.

Labour to mend fences in the US

Michael Cassell and Peter Riddell on Mr Kinnock in Washington

MR NEIL KINNOCK, the leader of Britain's Opposition Labour Party, had little cause to celebrate his 45th birthday as he flew back overnight to London in March 1987, hours after meeting President Ronald Reagan in the White House.

Mr Kinnock had gone to see the US President to explain Labour's policy of unilateral nuclear disarmament to the US Administration. The visit ended in a public relations and political disaster.

Today he meets US officials and tomorrow he sees a new President, with the wind of change in Europe and the Soviet Union firmly behind him. He expects a happier flight home.

For Labour, the visit is primarily intended for domestic consumption. It is being made to reinforce an image that Mr Kinnock is increasingly accepted internationally as a potential prime minister.

It is unlikely to make much impact in Washington, where the Labour leader is mainly known for having made the speech which Senator Joe Biden plagiarised in his unsuccessful campaign for the Democratic presidential nomination in 1987.

Moreover, Labour would be mistaken to confuse President Bush's characteristic politeness for support. He and his advisers would still prefer Mrs Thatcher to remain in office, despite occasional irritation with her style of diplomacy.

Indeed, while State Department and National Security Council staff have started to prepare for the possibility of a Labour victory, their political superiors believe that Mrs Thatcher is still likely to win the next election.

But for this visit there will not be any semi-public indication by the Administration of any partiality. President George Bush is too smart to alienate a possible head of government of a close ally.

In 1987, a general election was approaching. Labour's defence strategy hung heavily round its neck and Mr Kinnock was anxious to win endorsement wherever he could for a strategy he would subsequently abandon.

Some of his closest colleagues advised against going to see a President who enjoyed a unique relationship with Mrs Thatcher; he would be "stitched up" and his visit would only provide further pre-election ammunition for the British Government.

The warnings proved correct and the White House was unwilling to do him any favours. Mr Kinnock and Mr Denis Healey, Labour's foreign policy spokesman, emerged after a brief meeting, to claim they had received a sympathetic hearing for their case.

Kinnock: wants US friends

They told President Reagan Britain believed it could assist the nuclear arms reduction process by dismantling unconditionally its own nuclear forces and by insisting all US nuclear weapons went home.

Almost simultaneously, however, Mr Marlin Fitzwalter, the White House spokesman, was telling the press that Labour's policy would undermine the unity of the North Atlantic Treaty Organisation alliance.

Mr Kinnock and Mr Healey returned home to a chorus of "told you so's" and went on to lose the June election.

Today, the Labour leader will deliver a speech to the Council on Foreign Relations, explaining the shift in Labour's views on defence and promoting its pro-European credentials.

By Wednesday evening, Mr Kinnock will have seen Mr Bush and other senior Administration officials, as well as members of the Senate Foreign Relations and House Foreign Affairs Committees. They will want to hear what Mr Kinnock has to say and to question him on key issues of policy, such as the siting of nuclear weapons.

When he sees Mr Bush tomorrow, this time accompanied by Mr Gerald Kaufman, Labour's spokesman on foreign policy, he will be armed with a new defence policy.

The President will hear that Labour intends to retain nuclear weaponry until it can be negotiated away and also backs a "no first use" nuclear strategy that now comes close to Nato's redefined "weapons of last resort" approach. The party's long-held vision of a "peace dividend" is also one increasingly shared by other Nato partners.

Mr Kinnock's visit will be different from last time because the Administration and, to a lesser extent, Congress are aware that Labour's foreign and defence policies have changed, in a much more acceptable direction for the US.

Warning on rules threat to London as finance hub

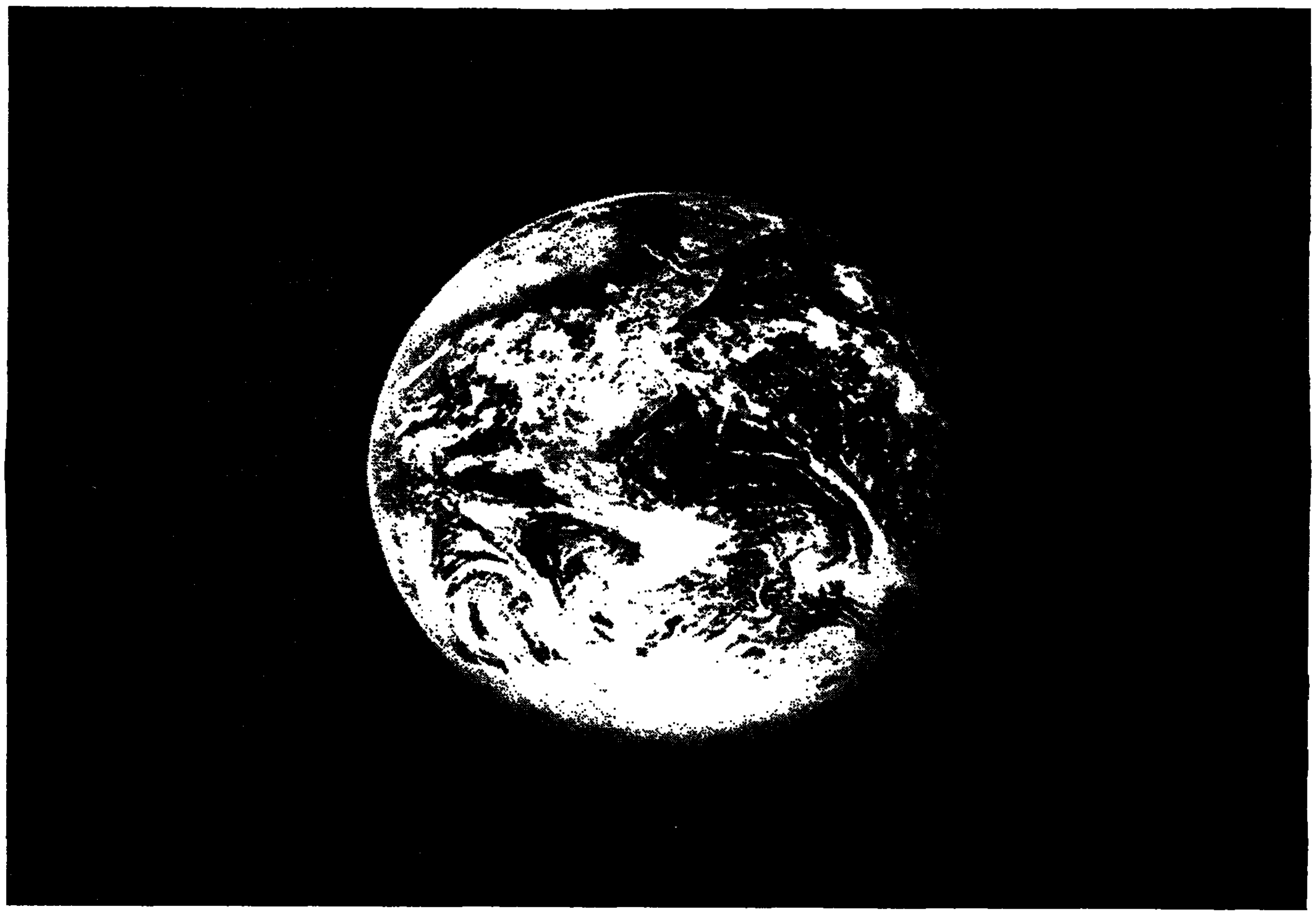
By Stephen Fidler, Euromarkets Correspondent

LONDON IS likely to lose more ground as a financial centre because of the Financial Services Act, Mr Ian Hay Davison, chairman of the stockbrokers Laing and Cruickshank, told accountants meeting in Brussels.

Mr Hay Davison, addressing the Institute of Chartered Accountants of England and Wales, said the rules on the capital that securities firms are required to hold should be less complex. The Securities and Investment Board must reorganise its rule book, explain it and implement it, he said. The board oversees the capital markets.

Mr Hay Davison, whose firm is owned by Crédit Lyonnais of France and which owns Alexanders, London's oldest discount house, said the area in which London was most vulnerable to competition was in the origination and trading of the shares of large companies.

The London Stock Exchange's Seaq International system, a screen-based price dissemination system for non-UK stocks, had a head start in international share trading. However, unless London improved its settlement and other back-up systems, it would begin to lose ground to unregulated systems such as Instinet, owned by the UK information group Reuters, or even the IBIS system just introduced in West Germany.



THE RIDLEY RESIGNATION

Thatcher's grip on policy seen to be loosened

By Philip Stephens, Political Editor

IN TERMS of the convenient labels that politicians and journalists tend to apply, the political balance of Mrs Margaret Thatcher's Cabinet has not altered this weekend.

Mr Nicholas Ridley, one of the few among her most senior ministers that Mrs Thatcher could count unequivocally as "one of us", has departed. But Mr Peter Lilley, his replacement, is also on the radical right of the party.

As ministers and MPs reflected, however, on the political damage inflicted by the eighth departure from the Cabinet in a year, the consensus yesterday was that the Prime Minister and her Government had been badly bruised.

Mrs Thatcher, barely recovered from the battering in the opinion polls inflicted by high interest rates and the poll tax, had lost one of her closest political allies and the most influential free-marketeer in the Government.

Mr Ridley more than anyone else shared, and reinforced, her ingrained hostility to the transfer of sovereignty to the European Community.

His departure was expected to weaken considerably her grip on policy, particularly over Europe.

Mr Kenneth Baker, the party chairman, is said by colleagues to be intensely concerned that divisions over Europe might split the Conservatives.

He has warned privately that such a division would wreck the steady recovery since the spring in the Government's position and, quite possibly, result in defeat in the general election due by mid 1992.

The inference is that, unless she is prepared to risk a further challenge to her leadership, Mrs Thatcher will face still stronger pressure to give her full support to the more positive stance towards Brussels adopted Mr Douglas Hurd, the Foreign Secretary, and Mr John Major, the Chancellor.

Their proposals for an alternative version of European economic and monetary union based on the creation of a new "hard Ecu" and for some modest reforms of the Community's institutions, have so far won tacit acceptance rather than enthusiastic endorsement from Downing Street.

Some ministers were speculating also that Mrs Thatcher, who dropped her veto on full British membership of the European Monetary System earlier this year, could no longer stand in the way of such a move. One senior minister said yesterday: "Nick was her last defence against the ERM [exchange-rate mechanism]. Now he has gone, it is entirely up to John Major and Douglas Hurd."

The exact timing of entry, which is pencilled in by the Treasury for the autumn, seems certain to be dictated by the general economic and political background rather than by the precise conditions set at last year's European Community summit in Madrid.

Few of Mr Ridley's colleagues were ready to shed many tears over his departure.

Mr Norman Lamont, the Chief Secretary to the Treasury, Mr Michael Howard, the Employment Secretary, and Mr Cecil Parkinson, the Transport Secretary, were said privately to have expressed hopes that he might survive. Those three are seen as the Cabinet's leading "Euro-sceptics" and they will be joined by Mr Lilley.

Mr Hurd and Mr Major, however, were said to regard his departure as what one colleague said was an entirely constructive development. Both will begin again the task of trying to persuade Great Britain's European partners that Great Britain is ready to play a positive role in forging closer integration.

Neither, however, will press for a lurch towards federalism. The Cabinet includes a handful of ardent federalists, notably Mr Kenneth Clarke at Health and Mr John Gummer at Agriculture, but there is no majority in favour of a "United States of Europe."

Mr Major, a pragmatist rather than an ideologue, has made clear that he is as strongly opposed to the Delors plan for economic and monetary union as he is in favour of joining the ERM.

Mr Hurd, who is apparently concerned to soothe the fears of the right of the party after Mr Ridley's departure, said yesterday that the Government would not sign next year for a single European currency and central bank. The implication was that, if necessary, the Government would opt for the slow lane of a "two-speed" Europe.



Kenneth Baker (left) fears election defeat and John Major and Douglas Hurd (right) have alternative ideas on Europe

The full texts of the letters exchanged between Mr Nicholas Ridley and the Prime Minister are:

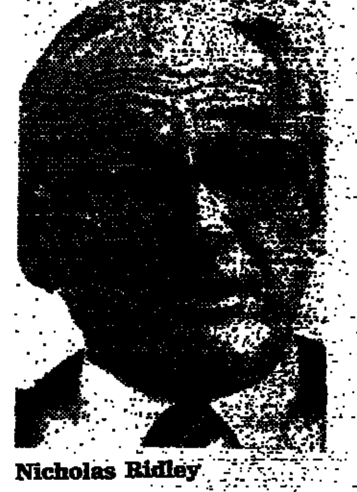
Dear Margaret,

In view of the controversy aroused by the publication of an article in The Spectator this week, I think that now is the time for me to leave your Government, since I have already made clear to you that I had decided not to contest the next election.

I would rather have expressed my views about the future of Europe directly, and at a time of my own choosing. In particular I deeply resent the journal's assertion that I associate present-day Germany with the aggression of the past. I do not hold that view.

Nevertheless I believe that the proposal of the European Commission for economic and monetary union in the Community would be a disaster, both for Great Britain and for the wider Europe in which I passionately believe. It would be heartless, after 50 years of subjugation, for the Community to exclude the nations of eastern Europe from participating in the European single market. The opportunities must be open for the nations of the European free trade area to join. All the nations of Europe should be free to maintain their own political, economic and national identities, while enjoying the benefits of a free and fair trade.

Great benefit will come to all from the completion of the single market free from internal barriers, subsidies and restrictions, trading openly with the rest of the world. Nothing but harm will come from trying to force them into the straitjacket of a single currency, with economic policy decided by people who are not accountable to the electors and taxpayers. It would result in economic domination by the country with the strongest currency in the Community.



Nicholas Ridley

I believe that the views which I have expressed in this letter are very much in line with those of the Government. But I recognise the difficulties which my failure to use more measured words have caused and, in the circumstances, I think it would be best if I now left the Government.

It has been a privilege and honour for me to have served you for the last 11 years. You have achieved so much. I wish to place on record my admiration for the transformation in the fortunes and self-confidence of our country which you have wrought. I will continue to support you in your essential further work on the nation's behalf over many years ahead.

Yours ever,
Nicholas

Dear Nicholas

I UNDERSTAND your decision to tender your resignation from the Government and it is entirely characteristic of you to follow the course which you have decided is the most honourable. As you say, you had anyway told me recently, very much to my regret, that you would not stand again at the next election.

That does not diminish the great gap which your departure will leave. Yours has consistently been one of the most creative and original contributions to the Government's work over the years since 1979 and indeed before. You have been a foremost champion of sound economic and monetary policies and of our drive to restore enterprise and initiative.

You have never shirked difficult decisions, either at Transport, at the Environment or at Trade and Industry. You have been at the forefront of our moves to privatise and to reduce the role of government in business and industry. And you have brought to Cabinet a clarity of mind and thought and an intellectual vigour, which have been invaluable in illuminating even the most complex problems and searching out a constructive way ahead. Personally I shall greatly miss your loyal support for the policies we both believe in so deeply.

We are all immensely grateful to Judy [Mrs Ridley] for all she has done and the tremendous help which she has always been to you.

Your continued support for the Government in the House, so generously offered, will be a great encouragement. In thanking you wholeheartedly for the outstanding work you have done, I send my warmest personal good wishes to you and to Judy.

Yours ever,
Margaret

Undecided issues await successor

By Alison Smith

WHEN MR Nicholas Ridley became Secretary of State for Trade and Industry last summer, his starting point was to review what his new department did and to consider whether it was necessary. His successor will find – in the immediate future at least – plenty of issues still clamouring for his attention.

On the trade side, Mr Lilley will have to take up the issue of farm subsidies and free trade between member states of the General Agreement on Tariffs and Trade (Gatt) when he attends the European Community foreign affairs council in Brussels tomorrow.

Within the EC, the UK continues with its increasingly difficult task of pressing for the removal of trade barriers in the run-up to the creation of a genuinely single market in 1992.

The leading domestic policy questions are likely to centre on what a non-interventionist government can do as a catalyst to assist British manufacturing industry and hence the balance of payments. Mr Lilley may try to introduce greater competition into the Post Office and the brewing industry.

City regulation might also attract attention, with last month's collapse of Dunsdale Securities focusing attention on the effectiveness of the existing regulators.

Some old sins are also still casting long shadows. There is unfinished business with the European Commission and the all-party trade and industry select committee of MPs regarding the "sweeteners" paid to British Aerospace as part of the Rover deal.

A response will also have to be made to the select committee's sharply critical report into the DTI's role in the Fayeds' takeover of Harrods.

Evangelical with de Gaulle portrait on the wall

By Philip Stephens

Peter Lilley: firm believer that the Thatcher revolution is not over

MR PETER LILLEY, whose elevation at 46 to the job of Secretary of State for Trade and Industry makes him the youngest member of the Cabinet, has a picture of General Charles de Gaulle hanging on his office wall at the Treasury.

The former Financial Secretary counts himself also as one of the radical free-marketeers who in the early 1980s established the No Turning Back group to help Mrs Margaret Thatcher stand her ground against the Tory "wets".

As many in the highest ranks of the Government have begun to call for a return to a rather gentler, less evangelical Toryism, he has been among the rising stars one step below who argue that the Thatcher revolution is far from over.

Underrepresented in the Cabinet, radical Conservatives at Westminster have invested their hopes for the future in that small group. It counts among its numbers Mr Michael Portillo at the Department of the Environment, Mr Francis Maude at the Foreign Office and Mr John Redwood, a junior DTI minister, as well as Mr Lilley.

Yet if the meteoric rise of an MP who entered Parliament only in 1983, representing St Albans, will reassure MPs on the right of the party, Mr Lilley is likely to disappoint those who expect him to be simply a younger version of Nicholas Ridley.

The picture of de Gaulle does signify his deep antipathy to the European federalism which he sees at the heart of the Delors blueprint for Economic and Monetary Union.

Like the late French president, he believes that his country can play an active part in the European Community without sacrificing sovereignty over important political and economic decisions.

His friends and colleagues, however, insist that his views are not tinged with the ingrained chauvinism of some of those associated with the "Bruges" vision of a loose confederation of European nations rather than a united Europe.

"He is not one of those who dislikes foreigners," one friend commented yesterday. He is among only a handful of senior ministers who have houses in France and speak French tolerably well.

Nor does Mr Lilley share his predecessor's passionate hostility to the European Monetary System's exchange-rate mechanism. Although a protégé of Mr Nigel Lawson, who gave him his first job in the Government in 1984, he is not an EMS enthusiast. He was persuaded by the former chancellor that joining the ERM was probably the best way of restoring the Government's grip on inflation.

On occasions - notably earlier this year when he made an ill-considered attack on the judgment of the Speaker of the House of Commons - Mr Lilley provides a glimpse behind his more usually calm, unruffled temperament. Some colleagues say also that at times he can be arrogant and supercilious.

More generally, however, he has a reputation for being quiet, thoughtful and polite, ready to argue the free-market case strongly but not given to haranguing opponents.

He set out the political manifesto that he will take to the DTI in a pamphlet last year for the Centre for Policy Studies. It called for more privatisation and deregulation, further cuts in income tax, tight controls on public spending, and the injection of "market forces" into the state education and health services.

The Government's philosophy, he argued, should be based on four basic principles: free choice is usually better than compulsion; rewards and incentives are preferable to command and control; responsible behaviour grows with the exercise of responsibility; and government is most effective when it confines itself to things that it alone can do.

Talks on Germans raise new fear over relations

THE Government's hopes of repairing its relations with Bonn suffered a further jolt yesterday with the publication of a confidential minute describing a seminar on Germany held by the Prime Minister earlier this year, Philip Stephens writes.

The minute, published in The Independent on Sunday and confirmed by officials as authentic, included a list of German national "character defects" discussed at the seminar convened at Chequers, the Prime Minister's country residence.

Among other things, Germans were described as prone to "angst, aggressiveness and assertiveness" in a document which provides a telling insight into the deep concern within Downing Street about the implications of German unification.

The meeting, attended by Mr Douglas Hurd, the Foreign Secretary, as well as by a number of academics, concluded after a lengthy discussion that the prospect of a united Germany was much less to be feared than in the past. Officials conceded yesterday, however, that the frank language used would further complicate their task of assuring Bonn that attitudes that forced Mr Ridley's resignation were not shared by the Prime Minister.

Europe divides Cabinet from backbench Tories

By Alison Smith

"I BELIEVE that the views I have expressed are very much in line with those of the Government," Mr Nicholas Ridley said of the vision of Europe set out in his resignation letter.

In the letter, he outlined a single-market European Community, open to other countries – including eastern European ones – and free from the "straitjacket" of an electorally unaccountable economic policy.

That view may command a consensus both in Government and on the Tory back benches but differences may become more apparent when more awkward political issues arise. Mr Teddy Taylor, Tory MP for Southend East, said the quickening pace of European developments, not least speculation about the UK's entry into the exchange-rate mechanism (ERM) of the European Monetary System (EMS) in the autumn, had brought greater urgency to the debate.

Another catalyst has been the intergovernmental conference on political union at the end of the year and decisions by the European Court.

Mr William Cash, Tory MP for Stafford and chairman of the backbench European affairs committee, says there is no question of a party split.

There are, he admits, a few of his colleagues on the extremes of the Euro-federalist and anti-European arguments, but the vast majority of backbenchers favour the approach of the Bruges Group.

This Group, which takes its title from the famous speech by Mrs Thatcher in Bruges, shares the desire expressed then for a Europe of sovereign nation states, rather than one based on central and electorally unaccountable control from Brussels.

"We want to see Europe work," Mr Cash said. "What we don't want is a Community torn by internal dissension, jealousy, the exclusion of eastern Europe, as a result of trying to create a Europe based on the ideas of the 1950s, when we want the Europe of the 1990s."

Mr Ridley envisaged, in a speech to the Bruges Group last month, a European Community where individual countries could choose how far they wanted to take part in economic and monetary union. Countries would be able to opt in or out of EC institutions.

That proposal received a warmer reception at the Bruges Group than in the Cabinet. If the Bruges Group's view is indeed shared by most Tory MPs, then the prospect of division seems less likely within their own ranks than between the back benches and the Cabinet, where there seems more general enthusiasm for Europe, albeit accompanied by opposition to federalism and a central bank.

The balance in Cabinet was tilted further towards Euro-enthusiasm by Mr Ridley's resignation. Although Mr Lilley is on the right side of the party, to keep the head count the same, his influence cannot be that of a close political colleague for more than 30 years.

Having already decided to leave politics at the next general election, Mr Ridley will not do for the backbench Euro-sceptics what Mr Michael Heseltine did for the Euro-enthusiasts. But as their first martyr he has succeeded in ensuring that the quickening pace of European developments is matched by domestic discussion.

MacGregor prepares to defend record on reform

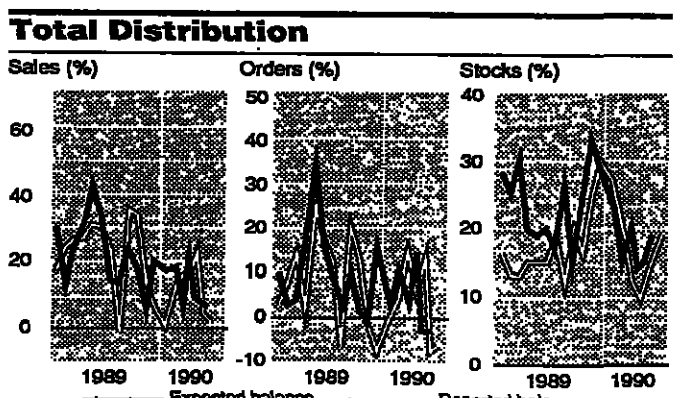
By Norma Cohen, Education Correspondent

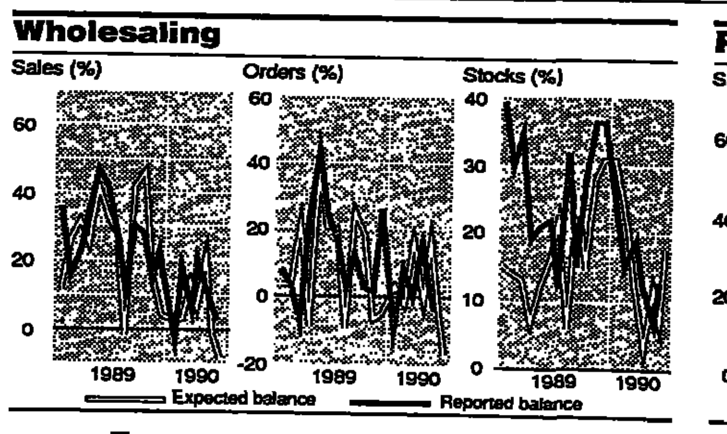
MR John MacGregor, the Education Secretary, is expected today to respond to critics on the Tory right, and defend his record on carrying out the Government's education reforms.

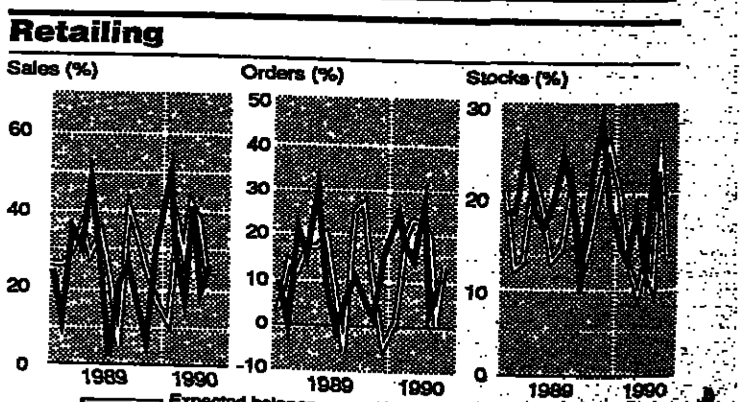
He is expected to reiterate his commitment to the Education Reform Act of 1988 in a speech to the Centre for the Study of Comprehensive Schools in Leicestershire.

It follows repeated charges against him that he has not moved decisively to carry out the reforms. Critics complain he has been slow to put in place two of the Government's most contentious education reforms – establishing City Technology Colleges, and allowing schools to opt out of local control by education authorities.

Later this week Mr MacGregor is expected to urge legislation to prevent local authorities from blocking school plans to opt out. In the next two weeks, he is expected to make a series of pronouncements to appease critics on the right of the Conservative Party. He is likely to insist that the history curriculum should retain its emphasis on dates and events and resist demands to combine the teaching of science subjects for GCSE examinations.







Retail sales improve but outlook poor for wholesalers

By Patrick Harverson, Economics Staff

WHOLESALERS and motor traders saw sales volumes fall again last month, and the outlook for sales and orders in both sectors in July remains bleak, according to the latest Confederation of British Industry/Financial Times Distributive Trades Survey.

In contrast, retailers reported that sales volumes picked up slightly in June, and they expect a similar modest increase in sales in July. However, the long-term retail trend remains one of slow growth.

The survey, which polled 501 companies in the distributive trades sectors between June 8 and July 4, again found that the motor trades industry was suffering most from the downturn in economic activity generated by high interest rates.

Of the 55 motor traders polled, 60 per cent reported that sales volumes in June were down on a year ago, while only 16 per cent reported better sales than a year ago. The difference between the two – a balance of 44 per cent reporting lower sales – was the second-worst result in the past 12 months.

An even larger balance, 50 per cent, reported that sales in June were poor for the time of the year, while a balance of 40 per cent said they expected sales this month to be lower than in July 1989. Motor traders continued to place a lower volume of orders with suppliers in June than a year ago, and lower ordering is again expected in July.

There was a similar deterioration in the stocks situation, with motor traders building up more stocks in relation to expected sales during June. A balance of 48 per cent of companies reported excessive stocks, the highest since December last year.

The picture in the wholesale sector was slightly better last month, but annual growth in sales volumes continues to slow and respondents were pessimistic about the outlook for July.

A balance of 2 per cent of companies reported higher sales than a year ago, significantly smaller than the 11 per cent balance in May's survey and the 42 per cent in June 1989. Wholesalers of clothing, textiles, footwear, food and drink reported that annual sales were up last month.

However, a balance of 9 per cent of the 160 wholesalers polled expect sales in July to be lower than a year ago, only the second time in a year that respondents have predicted negative sales growth.

A lower volume of orders was placed with suppliers by wholesalers last month compared with a year ago, and the pattern of falling orders is expected to continue in July. As predicted, wholesalers' stocks rose in June in relation to sales.

In the retailing sector, sales volumes picked up in June, with a balance of 27 per cent reporting better sales than a year ago.

Although that represents an improvement on the balance of 20 per cent reported in May's survey, it remains below the average of 32 per cent recorded over the first five months of this year.

Shops selling confectionery, tobacco and newspapers reported the best sales increases in June, while retailers of durable household goods, specialist foods, footwear and leather goods said sales volumes were lower. Mail order companies reported the healthiest sales increases last month.

Of the 286 retailers polled, 48 per cent predicted that sales in July would be up on the same month a year ago, while 18 per cent expected sales to fall on an annual basis.

The annual growth in orders placed with suppliers picked up in June, with increases expected in July, and retailers' stocks were run down last month in relation to expected sales.

When BMW launched the 535i, it was hailed as a masterpiece.

Which is hardly surprising.

For who could fault a car with such a low centre of gravity that it hardly rolls in a bend?

A car whose front and rear suspension settings are ideally matched, and whose weight distribution is the perfect 50/50?

In fact who could fault a car with such immaculate road manners?

The motoring press certainly couldn't. One journalist actually went as far as to say that, "When it comes to ride and handling the 535i sets the standard."

But BMW realised that, as perfect as it may be, the 535i might not be to everyone's taste.

Enter the 535i Sport.

A remarkable machine that's all the 535i is and more. Or rather, less.

With broader low-profile tyres on forged alloy wheels it sits lower on the road.

And a tauter, sports suspension with stiffer, twin-tube gas shock absorbers minimises any body sway when cornering at speed.

Whilst a limited-slip differential helps improve grip, traction and handling.

Just as important were the aerodynamics. Fully integrated Motorsport spoiler equipment was married to a body already renowned for its remarkably low drag co-efficient.

Front and rear spoilers and side-skirts lower axle lift front and rear by 33% and 50%. (Causing a 'Ground-effect' that makes the Sport hug the road.)

As for the engine, well, some things just can't be improved. So the Sport shares the 535i's acclaimed 3.5 litre straight six.

Which under the electronic auspices of Motronic, BMW's engine management system, produces 211bhp and 0-60 acceleration of just 7.4 seconds.

The 535i Sport then, is a car built not to overshadow the 535i, but to complement it.

Yet it's a car that, when driven, prompts a well-known phrase to readily spring to mind.

Less is More.

THE ULTIMATE DRIVING MACHINE

THE 535i COSTS £26,750. THE 535i SPORT COSTS £30,675. PRICES CORRECT AT TIME OF GOING TO PRESS INCLUDES CAR TAX AND VAT AND FREE 1200 MILE SERVICE BUT NOT DELIVERY OR NUMBER PLATES. INCLUSIVE DELIVERY CHARGE INCORPORATING BMW EMERGENCY SERVICE £257 + VAT. 535i SHOWN WITH OPTIONAL SUNROOF AND LEATHER UPHOLSTERY. 535i SPORT SHOWN WITH OPTIONAL LEATHER UPHOLSTERY. PERFORMANCE FIGURE SOURCE: AUTOCAR & MOTOR. ALL BMW MODELS (EXCL. 6 SERIES) AVAILABLE WITH A CATALYTIC CONVERTER AS AN OPTION EXCEPT WHERE FITTED AS STANDARD. FOR A 5 SERIES INFORMATION FILE, PLEASE WRITE TO BMW INFORMATION SERVICE, PO BOX 46, HOUNSLOW, MIDDLESEX TW4 6NF (LITERATURE REQUESTS ONLY) OR PHONE 081-897 6665. FOR TAX FREE SALES PHONE 071-629 9277.

APPOINTMENTS

Sears makes changes

SEARS has appointed **Mr John Osborn** as managing director, British Shoe Corporation, from today. He was managing director, womenswear division, responsible for Miss Selfridge, Wallis, and Warehouse fashion businesses. Mr Osborn succeeds **Mr Christopher Marsland** who has resigned to pursue other interests. **Mr Jack Clark** becomes managing director, womenswear division. He was divisional finance director.

H.P. BULMER HOLDINGS has appointed Mr Alistair Mitchell-Innes *(pictured)* as deputy chairman, succeeding Mr Brian Nelson who has retired. Mr Mitchell-Innes has been a Bulmers non-executive director since 1984, and is also a director of NEXT, and Evans Halshaw Holdings.

■ **Mr Paul Erskine** has been appointed sales and marketing director at UNITEL PERSONAL COMMUNICATIONS, a new telecommunications network company backed by STC, U.S. West, Thorn-EMI, and Deutsche Bundespost Telekom. It will offer a mobile telephone service from late 1992. Mr Erskine was European sales manager with Mars subsidiary Four Square. **Mr Simon Gilling** has been appointed legal director. He was legal adviser and company secretary, with Cable & Wireless subsidiary Mercury Communications.

■ **Admiral Sir Lindsay Bryson** becomes a non-executive director of ELSWICK at the end of July, replacing Mr J.R. Williams who is retiring. Admiral Bryson is chairman of ERA Technology, and of the Marine Technology Directorate.

■ **Mr John Bygate** has become managing director of DOCKLANDS LIGHT RAILWAY. He was general manager, railway extensions, with the Hong Kong Mass Transit Railway Corporation.

■ THE DAIWA BANK has appointed **Mr Peter Clarke** as deputy general manager of its London branch. He was an assistant general manager with Bayerische Landesbank.

■ **Mr David Isaacs**, ex-sales and marketing director of Oddbins, has been appointed managing director of MAJESTIC WINE. **Mr Anthony Wheaton**, formerly with Hill Samuel & Co, becomes deputy managing director and finance director. **Mr John Kerr** is made chairman. He is managing director of Sumit, Majestic's major shareholder. The previous chairman, **Mr Richard Poulden**, managing director **Mr David Woods**, and operations director, **Mr Geoffrey Smallwood**, have all resigned.

■ **Mr Alan Dean** has been appointed a non-executive director of MATTHEW CLARK AND SONS (HOLDINGS). He was chief executive of N. Brown Group.

Mr Henri Giscard d'Estaing *(pictured)* has been appointed managing director of HP FOODS. As the former head of BSN's Northern European grocery zone, he worked closely with HP's management through the re-launch of the company and its brands following BSN's acquisition of HP in July 1988. He succeeds Mr Nigel Worne who leaves in August to join the MB-Caradon Group.

DIARY DATES

PARLIAMENTARY

Today

Commons: Finance Bill, remaining stages.

Motion on the Care of Cathedrals Measure.

Lords: Representation of the People Bill, committee.

Marriage (Registration of Buildings) Bill, committee.

British Nationality (Hong Kong) Bill, committee.

Motion for approval on the Redundancy Payments (Merchant Seamen Exclusion) Order 1973 (Revocation) Order 1990.

Tomorrow

Commons: Conclusion of debate on the Finance Bill.

Motion relating to Housing Renovation Grant Regulations.

Lords: Debate on the Defence Estimates.

Landlord and Tenant (Licensed Premises) Bill, report.

Motion to approve the Army, Air Force and Naval Discipline Acts (Continuation) Order.

Motion for a Humble Address to the Queen associated with congratulations to the Queen Mother on her forthcoming 90th birthday.

Committee on private bill: Hythe, Kent, Marina Bill. (Room 5, 10.30 a.m.)

Wednesday

Commons: Opposition debate on community care.

Motion on Social Security Benefit Regulations.

Motion on Education Assisted Places Regulations.

Opposed private business from 7 p.m.

Lords: Broadcasting Bill, committee.

Enterprise and New Towns (Scotland) Bill, report.

Select committees: Environment: subject, indoor pollution. Witness: Mr G Robertson, Healthy Building International. (Room 21, 10.30 a.m.)

Foreign Affairs: subject, UK policy towards southern Africa. Witnesses: British Council of Churches and Christian Aid. (Room 15, 10.30 a.m.)

Parliamentary Commissioner for Administration: subject, Report for 1989. Witness: Sir Anthony Battishill, chairman, Inland Revenue Board. (Room 18, 10.45 a.m.)

Defence: subject, improved UK air defence. Witnesses: MoD officials. (Room 16, 10.50 a.m.)

Energy: subject, energy efficiency. Witnesses: Office of Gas Supply, and Office of Electricity Regulation. (Room 8, 11 a.m.)

European legislation: subject, Italian EC presidency priorities. Witnesses: Mr Francis Maude, MP, Foreign Office Minister of State, and officials. (Room 19, 11 a.m.)

Employment: subject, health and safety at the Channel Tunnel site. Witnesses: Health and Safety Executive, Trans-Manche Link and trade unions. (Room 8, 4.15 p.m.)

Transport: subject, London Transport. Witnesses: Mr Wilfred Newton, chairman, and officials of London Transport. (Room 15, 4.15 p.m.)

Committees on private Bills (unopposed): Shard Bridge Bill, Former Port Authority Bill, London Docklands Railways Bill, and London Underground Victoria Bill. (Room 9, 4 p.m.)

Thursday

Commons: Lords amendments to the Government Trading Bill and the Aviation and Maritime Security Bill.

Debate on the select committee report on Televising of Commons Proceedings.

Lords: Broadcasting Bill, committee.

Motions for approval on Meat and Livestock, Sea Fish Industry and Air Navigation Orders.

Committee on a private bill: Midland Metro Bill. (Room 6, 10 a.m.)

Friday

Commons: Private members' motions.

Lords: Finance Bill, second reading.

Education (Assisted Places) Regulations, motion for approval.

FINANCIAL

TODAY

COMPANY MEETINGS-
Airflow Streamlines, Northampton Moat House, Silver Street, Northampton, 12.00
F & C Smaller Companies, 1, Laurence Pountney Hill, 12.15
Gates (Frank G), Prince Regent Hotel, Manor Road, Woodford Bridge, Essex, 12.00

BOARD MEETINGS-
Finals:
Excalibur
Firth (G.M.)
Tomkins
Tripplex Lloyd
Interims:
Acsis
Central Motor Auctions
Evode
Plateau Mining
St. Andrews Trust
Yelverton Invs.

DIVIDEND & INTEREST PAYMENTS-
Anglo Irish Bank 1.36p
Anglo & Overseas Tst. 4½% Prf. 1.575p
Brixton Estate 3.9p
Chrysler Corp. 30cts
Edinburgh Inv. Tst. 3¾% Deb. 1998 1.875pc.
Eksportfinans 15% Oil-Linked "A" Nts. 1990 £150.83
Do. 15% Oil-Linked "B" Nts. 1990 £150.83
European Inv. Bank 9% Ln. 2001 4.5pc.
Helical Bank 5.25% Cnv. Prf 2012 2.625p
Land Securities 12.25p
London Atlantic Inv. Tst. 1.87p
Mcleod Russell 2.75p
PWS 1.3p
Smart (J.) 1.95p
Smithkline Beecham 3.4p
Treasury 8% Cnv. 1990 4pc.
Treasury 8½% Ln. 2007 4.25pc.
Triefus 2p

TOMORROW

COMPANY MEETINGS-
Borthwicks, The Brewery, Chiswell Street, E.C., 12.00
British Airways, Barbican, E.C., 12.00
Cable & Wireless, Grosvenor Hotel, S.W., 11.00
Chancery, 100, Avenue Road, N.W., 12.00
Courtaulds, London Marriott Hotel, Duke Street, W. 10.45
Drummond Group, Norfolk Gardens Hotel, Bradford, 12.00
Great Portland Estates, Cafe Royal, 68, Regent Street, W., 12.00
Harrison Inds., Post House Hotel, Northenden, Manchester, 10.30
High Gosforth Park, High Gosforth Park, Newcastle upon Tyne, 12.00
New Throgmorton Trust, 155, Bishopsgate, E.C., 12.00
Salvesen (Christian), Sheraton Hotel, Festival Square, Edinburgh, 11.00

BOARD MEETINGS-
Finals:
ASDA
Baileys
Broad Street Group
Davies (D. Y.)
Hampson Inds.
Tops Estates
Interims:
City of Oxford Investment Trust
Eurotherm Intl.

DIVIDEND & INTEREST PAYMENTS-
3i Grp. Fltg. Rate Nts. 1994 £191.66
Abbey National Bldg. Society Fltg. Rate Nts. 2000 £381.78
Bank of New York O'seas Finance NV Gtd. Fltg Rate Nts. 1998 $216.44
Citicorp O'seas Finance Corp. NV Gtd. Fltg Rate Nts. 1982 $211.70
Creditanstalt Bankverein Sub. Fltg. Rate Nts. 1994 $210.54
F. & C. Smaller Co's. 1.05p
Gates (Frank G.) 2.75p
General Motors Acceptance 9% Nts. 1996 4.5pc.
Henderson Administration 27.5p
High Gosforth Park 15p
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1994 £191.66
M. & G. Second Dual Tst. 10.65p
MEPC 5.25p
National Bank of Canada Fltg. Rate Dep Nts. 1991 $213.68
Sanwa Intl. Finance Gtd. Fltg. Rate Nts. 1993 $4198.19
Treasury 2½% Index-Linked Stk. 2024 £1.5166
Wells Fargo & Co. Fltg. Rate Sub. Nts. 1997 $221.18
Woolwich Bldg. Society Fltg. Rate Nts. 1993 £383.32
Zentralsparkasse und Kommerzialbank Fltg. Rate Sub. Nts. 1991 $213.68

WEDNESDAY JULY 18

COMPANY MEETINGS-
BHH, Newstead House, Alderflat Drive, Newstead Industrial Estate, Trentham, Stoke-on-Trent, 11.00
Brown (N), Ramada Renaissance Hotel, Manchester, 2.30
Centreway Trust, 1, Victoria Square, Birmingham, 10.00
Cook (William), Tapton Masonic Hall, Shore Lane, Sheffield, 12.00
Dawson Intl., Caledonian Hotel, Edinburgh, 12.00
Dunhill, Cafe Royal, 68, Regent Street, W., 12.00
Elliott (B), 30/32, St. Mary Axe, E.C., 11.00
English & International Trust, 11, Devonshire Square, E.C., 10.00
Fleming Universal Investment Trust, 25, Copthall Avenue, E.C., 12.00
Foster (John), Black Dyke Mills, Queensbury, Bradford, 12.30
Leading Leisure, Centrecourt Hotel & Tennis Centre, Centre Drive, Chineham, Basingstoke, 11.00
Pilkington, Prescot Road, St. Helens, Merseyside, 2.30
Plysu, The Brewery Conference Centre, Chiswell Street, E.C., 12.15
Stoddard Sekers, Glenpatrick Road, Elderslie, Renfrewshire, 12.00
Waverley Mining Finance, 13, Charlotte Square, Edinburgh, 12.00

BOARD MEETINGS-
Finals:
AIM
Bespak
Bertam
Bulmer (H. P.)
Moorgate Inv. Tst.
Multitone Electronics
Scott Pickford
Stanley Leisure
Tinsley (Eliza)
Interims:
Ansbacher (Henry)
BWD Securities
Cityvision
First Leisure
General Cons. Inv. Tst.
Microgen
Securiguard
Tilley Intl.

DIVIDEND & INTEREST PAYMENTS-
El Du Pont de Nemours & Co. 9% Nts. 1994 4.5pc.
Echlin 17.5cts
Foster (John) 3.75p
National Westminster Bank Und. Var. Rate Nts. $2221.28
New Throgmorton Tst. (1983) 6p
Northern Rock Bldg. Society Fltg. Rate Nts. 1995 £191.66
Royal Bank of Scotland 2.8p
Sanders & Sidney 5.2p
Temple Bar Inv. Tst. 7% Prf. 3.5pc.

THURSDAY JULY 19

COMPANY MEETINGS-
Acal, Plaisterers Hall, 1, London Wall, E.C., 12.00
Bromsgrove Inds., National Motorcycle Museum, Solihull, West Midlands, 12.00
Brown Shipley, Founders Court, Lothbury, E.C., 12.30
CST Emerging Asia Trust, 25, Bucklersbury, E.C., 10.30
EMAP, Butchers' Hall, Bartholomew Close, Smithfield, E.C., 12.00
El Oro Mining & Exploration, 41, Cheval Place, S.W., 11.30
Exploration Company, 41, Cheval Place, S.W., 11.15
Heath (C.E.), Baltic Exchange, 14/20, St Mary Axe, E.C., 10.00
Jarvis Porter, Queens Hotel, Leeds, 12.00
Meyer Intl., Waldorf Hotel, Aldwych, W.C., 12.00
Osborne & Little, 1, Red Lion Court, E.C., 11.00
Shanks & McEwan, Albany Hotel, Glasgow, 12.00
Southnews, Butchers Hall, 87, Bartholomew Close, E.C., 12.00
Thames Water, Alexandra Palace, Palace Road, N., 2.15
Waddington (John), Glaziers Hall, 9, Montague Close, London Bridge, S.E., 12.00
Yale & Valor, Ironmonger's Hall, Aldersgate Street, E.C., 10.45

BOARD MEETINGS-
Finals:
Brasway
Clark (Matthew)
Dewy Warren
Elbief
Fitch Lovell
Helton
Norbain Electronics
Park Food
Symond Engineering
Interims:
Dewhurst
Drayton Far Eastern
Elandsrand Gold Mining
GWR
Macarthy
P & P
Selective Assets Trust
South African Land & Exploration
Southvaal
Throgmorton USM Trust
Tribune Inv. Tst.
Vaal Reefs Exploration & Mining
Western Deep Levels

DIVIDEND & INTEREST PAYMENTS-
Daily Mail & General Tst. 27p
Do. "A" NV 27p
Davenport Vernon 1.5p
Dunhill Hldgs. 3.5p
Great Portland Estates 6p
Hill Samuel Fltg. Rate Nts. 2016 $446.22
Newcastle & Gateshead Water 4.2% Max. Ord. Stk. 2.1p
Do. 4.9% Max. Ord. (1898) 2.45p
Do. 4.9% Max. Cons. (1876) 2.45p
Do. 7% Max. Cons. 3.5p
Do. 3.5% Cons. Prf. 1.75p
Do. 2.45% Prf. 1.225p
Plysu 2.5p
Treasury 2% Index-Linked 2006 £1.70
Westbury 5.75p
Yorkshire Radio Network 1.5p

FRIDAY JULY 20

COMPANY MEETINGS-
British Investment Trust, 4, Melville Crescent, Edinburgh, 12.15
Cassidy Brothers, Savoy Hotel, Blackpool, 3.00
Ferguson Industrial, Watermen's Hall, 18, St Mary at Hill, 11.00
Ketson, International House, World Trade Centre, 1, St. Katherine's Way, E., 11.30
Northern Foods, Grange Park Hotel, Willerby, 12.30
Powell Duffryn, Waldorf Hotel, Aldwych, W.C., 12.00
Property Partnerships, Hotel Norwich, Norwich, 11.30
Readicut, Institute of Directors, 116, Pall Mall, S.W., 12.30

BOARD MEETINGS-
Finals:
Abtrust
First Spanish Inv. Tst.
Mide
Interims:
Denmans Electrical
Trust of Property Shares

DIVIDEND & INTEREST PAYMENTS-
Brewmaker 0.1p
Bromsgrove Industries 2.3p
Burton 3p
Capital Radio 1.75p
Dewhurst Dent 7% Uns. Ln. 1990/2000 3.5pc.
Dundee & London Inv. 3.8p
Elys (Wimbledon) 7¼% 1st Mtg. Deb. 1988/91 3.625pc.
Do. 9¾% Uns. Ln. 1995/99 4.875pc.
English & Intl. Tst. 2.2p
Europa Minerals 1p
Fleming Universal Inv. Tst. 2.2p
Hanson 3p
Hughes (HT) 1.66p
Leading Leisure 1.5p
McInerney Props. 1p
Spandex 3.5p
Wells Fargo & Co. 100cts
Young (H.) Hldgs. 2p

SATURDAY JULY 21

DIVIDEND & INTEREST PAYMENTS-
Chartwell 1p
Exchequer 10¼% 1995 5.125pc.
Readicut Intl. 2.81p

SUNDAY JULY 22

DIVIDEND & INTEREST PAYMENTS-
Exchequer 12% 1999/2002 6pc.
Sweden (Kingdom of) 13.5% Ln. 2010 6.75pc.
Treasury 12¾% Ln. 1992 6.375pc.
Treasury 13½% Ln. 1997 6.75pc.
Treasury 11¾% 2003/07 5.875pc.

Trade fairs and exhibitions: UK

July 19-22
International Helicopter Exhibition (081-773 3751)
Middle Wallop

July 29-31
Sun & Swimwear Exhibition (071- 973 6401)
Marriott Hotel, London

August 2-5
N.E.C. August Fair for Connoisseurs and Collectors of Antiques (021-780 4171)
Birmingham

August 12-14
Medium to Top Range Women's Clothing Exhibition - PREMIER COLLECTIONS (081-742 2828)
NEC,Birmingham

August 16-19
Antiques Fair (071-873 6401)
Kensington Town Hall

August 18-19
Town & Country Show (0775 820243)
Harrogate Showground

Aug 30-Sep 1
Telecommunications Industry Association Trade Exhibition (071-262 2886)
Manchester G-Mex Centre

September 2-6
International Autumn Fair (081-855 9201)
Olympia

September 4-6
Water and Environmental Management Exhibition and Conference (071-973 6401)
Exbn & Conf Centre, Glasgow

September 12
Women in Business Exhibition (081-688 9966)
Fairfield Halls, Croydon

September 19-30
British Internatinal Motor Show (o71-235 7000)
NEC, Birmingham

September 21-25
International Broadcasting Exhibition and Convention (071-240 1871)
Metropole Exbn Hall, Brighton

Overseas exhibitions

July 26-29
International Woodworking Machinery Tools & Accessories Exhibition - FURNTECH/WOODTECH (081-940 3777)
Bangkok

August 12-15
International Offfice Technology Exhibition - OFFICE TECHNOLOGY COMMUNICATIONS (071-486 1951)
Melbourne

August 19-22
International Video & TV Equipment Fair - VIDEO EXPO (021-455 9600)
Sao Paulo

September 1-5
Jewellery, Gold, Tableware, Clocks and Gifts Exhibition - BIJORHCA (071-221 3660)
Paris

September 2-8
International Autumn Fair (0375 392222)
Leipzig

September 9-12
International fashion Fair - IGEDO (071-625 4506)
Dusseldorf

September 10-14
International Environmental Technology, Waste, Management and Municipal Cleaning Exhibition - ENVIRO (071-495 7977)
Amsterdam

September 12-19
International Engineering Fair (071-639 7265)
Brno

September 24-30
International Technical Fair (071-836 5219)
Plovdiv

Business and management conferences

July 24-26
Management Training Consultants (Leicester): Successful managers in action - practical steps for improving teamwork and productivity (0533 627062)
Leicester

July 25-26
FIBEX: Doing business in Eastern Europe - encompassing an overview of Eastern Europe and focusing on individual countries (071-489 9944)
Hilton Hotel, London

August 6-10
SIGGRAPH 90- International conference on computer graphics and interactive techniques (Chicago 312-644 6610)
Dallas Convention Centre

August 12-14
Frost & Sullivan: Business intelligence - How to gain hospitality and retain a competitive advantage (071-730 3438)
Brighton

September 7
HS Conference Studies: Finding solutions when property companies hit trouble (071-935 2382)
Portman Inter-Continental Hotel, London

September 13-14
Hawksmere: Successful negotiating techniques (071-824 8257)
Holiday Inn, Swiss Cottage

September 18-19
Hawksmere: Achieving outstanding management results (071-824 8257)
Rembrandt Hotel, London

September 24-25
Financial Times Conferences: World mobile communications (071-925 2323)
London

September 27
HS Conference Studies: Property investment in Europe (071-935 2382)
Cafe Royal, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

LEGAL COLUMN

Washington ruling stirs row over professional boundaries

By Pratap Chatterjee

WASHINGTON DC is to be the first area in the United States to allow non-lawyers to become partners in a law firm, just as a serious disagreement has broken out in the profession as to whether US lawyers should dabble in non-legal work.

From next January, non-lawyers will be able to become equity partners in law firms in the US capital, albeit so long as their work is necessary to the practice of law, according to a ruling that was recently handed down by the local Court of Appeals.

At the same time, two rival committees are drafting directly contradictory rules for the American Bar Association (ABA) on whether lawyers should be allowed to do non-legal work, such as consulting and lobbying. Until now, ABA rules on such work were unclear.

'If a lawyer owns an investment banking firm, how can he advise his client on where to get investment advice? If lawyers can provide non-legal work, their competitors should be able to own law firms. That would destroy the independence of lawyers.'

The conflict owes its origin to the ABA's Stanley Commission, which five years ago, under the leadership of Justice Stanley, identified three potential areas of difficulty for lawyers in the conduct of their profession.

They are: serving on boards of directors of client companies; financial involvement (such as stock ownership) with a client company; and conducting non-legal work or "ancillary business" for a client.

In order to look at those issues, the ABA appointed a committee to come up with recommendations.

The committee sent round a questionnaire to firms they believed were conducting ancillary business. Rather than answer it, several firms banded together and presented the commission with a white paper on the issue. The committee then invited some of those firms to participate in a sub-committee specifically to look at ancillary businesses.

The sub-committee agreed that there should not be an outright ban on ancillary businesses.

However, Mr Dennis Block, who represented the litigation section of the ABA to the sub-committee, dissented and the litigation section, the largest group in the ABA, asked him to draft rules on the issue. The rules that Mr Block has drawn up call for a complete ban on lawyers conducting non-legal work.

Mr Block, of the New York-based law firm Weil Gotshal & Manges, said: "We think that there is a professionalism problem with non-legal work. Lawyers owe their clients the duty of complete loyalty. If a lawyer owns an investment banking firm, how can he advise his client on where to get investment advice?

"At the same time we believe that if lawyers can provide non-legal work, their competitors in that field should be able to own law firms. And that's something that would destroy the independence of lawyers."

Mr Block says the sub-committee is biased because three of its members belong to firms that have ancillary business practices. One of them is Mr James Jones, chairman of Washington DC-based Arnold & Porter, whose firm owns three ancillary business subsidiaries.

Mr Jones said: "Many people who oppose ancillary work argue that it is a slippery slope for professionalism. But the sub-committee as a whole agrees that there are ethical questions involved. What we're saying is: there is no need for an outright ban but that there should be regulation that is disclosure-oriented."

Almost 80 of the nation's law firms offer non-legal services such as investment banking, financial and economic consulting, lobbying and property broking. Most of those firms have their centres in Washington DC.

Arnold & Porter, for example, has three subsidiaries: APCO Associates, a lobbying/management-consulting firm; MPC & Associates, a property development consultancy that works mostly with non-profit groups such as the Ford Foundation; and Secura, which provides services to financial institutions.

According to Mr Mark Fleischaker, a partner at Washington DC-based Arent, Fox, Kintner, Plotkin & Kahn, the opposition to ancillary business is largely a case of sour grapes.

"They are more concerned about competition with Washington firms than they are about ethics," he says.

The sub-committee was planning to issue an interim report to the ABA at its next annual meeting to be held in Chicago in August. But the litigation section's draft rules have forced them to come up with rules of their own on regulation.

Both sets of rules will debated in August by the ABA's house of delegates, which sets model rules for the profession, unless one side can be persuaded to back down. But according to Mr Mark Harrison, of Phoenix-based Harrison, Harper, Christian & Dichter, who heads the ABA committee on professionalism, whatever it rules, the profession is not legally bound to follow.

It is, however, required to follow the dictates of its local courts. So even if the ABA rules against ancillary businesses, Washington DC firms will be free to follow their new rule, which will allow them to admit non-lawyer partners, even though that is against ABA rules.

Mr Richard Jordan, of the Washington DC-based firm Steptoe & Johnson, who helped to draft the rules on non-lawyer partners, said: "We asked ourselves whether the present rules made sense in the modern world and in Washington DC. Many firms here have high-level non-lawyer professionals, such as administrative managers, non-lawyer lobbyists and anti-trust economists, and so we decided that there was no need to prohibit non-lawyers from taking part in the ownership of a law firm so long as lawyers follow professional conduct rules.

"But the rules are quite restrictive. Non-lawyers cannot own a law firm and if they become partners, they must agree to abide by the professional rules of conduct. At the same time the lawyers are expected to agree in writing to be responsible for the non-lawyers' conduct."

Other firms have, however, appointed partners to conduct non-legal work.

Earlier this year, Chicago-based Winston & Strawn signed up a public-relations executive as a partner.

The profession is required to follow the dictates of its local courts. So even if the ABA committee rules against ancillary businesses, Washington DC firms will be free to follow their new rule, which will allow them to admit non-lawyer partners.

Mr Loren Wittner, formerly executive vice-president of Edelman Public RelationsWorldwide, is, however, a qualified lawyer who practised in the 1960s and 1970s but switched over to public relations in the late 1970s. He was in charge of professional service accounts for Edelman that included law firms.

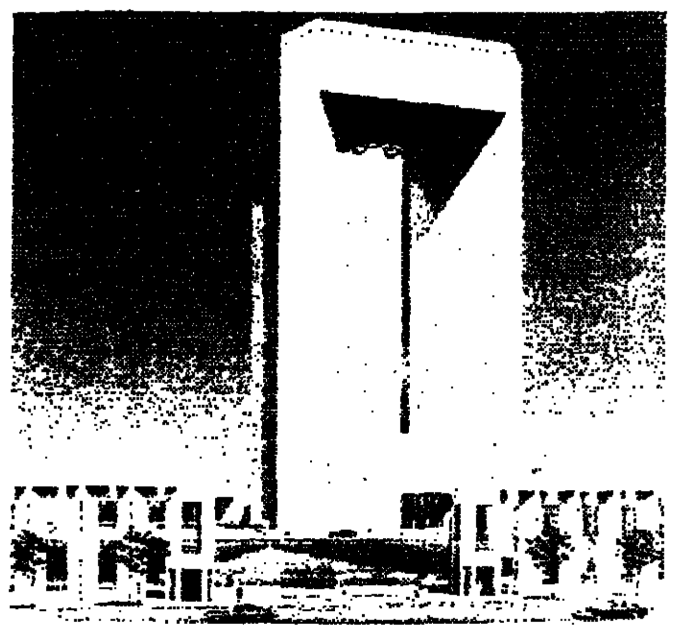
The debate over whether professionals should practise in areas outside their profession is not restricted to the legal profession.

Last year the Securities & Exchange Commission ruled that auditors could not provide non-audit services to their audit clients.

The auditors have fought back, arguing that they can set up rules of professional conduct that will regulate any possible conflicts of interest. So far the SEC has not backed down but it has said it will examine any proposed rules.

CONSTRUCTION CONTRACTS

Building a bank in Jeddah



TAYLOR WOODROW INTERNATIONAL is preparing to start work on a new headquarters building for the Islamic Development Bank in Jeddah, Saudi Arabia.

The bank, representing more that 40 Muslim nations, has issued the company with a letter of intent for phase one of the project, worth over $US95m (£52.7m).

Phase one includes a 22-storey tower, above two car-park basement levels, and a ground floor podium.

The steel-framed structure, 106 metres high by 50 metres square, incorporates two towers of offices stretching from the the fourth floor to the roof slab. These are separated by a courtyard running diagonally across the structure.

The inner offices overlooking the courtyard will be clad in curtain-walling while external walls will be marble clad. The complex will be surrounded by a colonnaded wall 12 metres high.

The tower will provide 72,000 sq metres of floor space, and will be environmentally controlled, with monitoring systems for air conditioning, emergency and security protection.

Some 5,500 tonnes of structural steel, 55,000 cubic metres of concrete, and excavation of about 150,000 cubic metres of soil, will be required for the first phase.

Work on the 32-month project will start immediately after the official contract signing in September.

£30m orders for Miller Construction

MILLER CONSTRUCTION, part of the Miller Group, has started work on a number of recently won contracts totalling over £30m.

In the south, Miller Construction is erecting a three-storey building for the Institute of Food Research at Reading University, valued at £6.4m; a £5.3m contract has been awarded for a three-storey ward and mortuary block for the Royal Hampshire County Hospital in Winchester; a £1.5m police control post is under way for the PSA; and a £5m two-storey production facility is being built for Motorola at Swindon.

In London, the Borough of Merton intend to award a £2.8m road bridge package for the Morden Road/A24 junction.

The Rugby office has been awarded a £1.9m contract to build a design & technology centre for Rugby School. The Wakefield office continues the educational theme with awards for two schools for Leeds City Council: Grange Farm School at £1.7m and Wykebeck School at £1.8m. The North East office in Stockton has taken over the contract to extend Filmco International Inc.'s production facility at Sedgefield for £600,000.

Tesco superstore planned for Liverpool suburb

COSTAIN CONSTRUCTION has been awarded a £6.7m contract by Tesco Stores to build a superstore in Formby, Liverpool.

The 6,503 sq metre store will have a bakery, coffee shop, public toilets, storage area and preparation rooms.

The predominantly single-storey building will be built on piled concrete foundations with a reinforced concrete floor slab. The steel frame will be completed with concrete block insulated external walls, featuring red "multi" brickwork. Car parking for 514 vehicles will be provided. Work will be completed in January 1991.

Costain has also been awarded a £4m contract by P A Consulting Services for an extension at the Sundridge Park Management Centre, Kent.

The three-storey building will connect with the Butten Building. Facilities will include a swimming pool, two squash courts, and a fitness room. The dining room will be extended. Work is to be completed in August 1991.

Refurbishing two wings at Parkhurst

BEAZER has been awarded an £11.8m contract by the Home Office for the refurbishment of A and D wings at the high security Parkhurst Prison on the Isle of Wight. A new segregation unit is to built.

The structural refurbishment of the two cell blocks will provide 182 single cells, each with sanitary fittings, and a new association area. Work starts in August for completion in June 1992.

Scottish motorway

A joint venture partnership between EDMUND NUTTALL and R.J. LEVACK has won a Scottish Development Department contract to build 4.5 km of three-lane motorway and three bridges on the M74 Elvanfoot to Paddy's Rickle Bridge.

The £13.5m project starts this month, and will take about 104 weeks. The new motorway link will replace the A74 dual carriageway that runs between the Lowther Hills, some 40 miles south of Glasgow and two miles north of Beattock Summit. The A74 will be replaced with a single carriageway, and the A702 will be realigned.

Realigning the River Clyde is included among the diversions needed. This will alter the course of the river from an ox-bow to a gentle curve. The M74 can then be built over the old river bed, avoiding the need for two river crossings.

Turkish port silo complex

A £30m order for a port silo complex at Derince in Turkey has been won by JOHN LAING INTERNATIONAL in partnership with MAPA, a Turkish company. Awarded by the Turkish Grain Board General Directorate, the contract calls for a 400 metre deep-water-berth quay able to handle 1200 tonnes of grain/hour. Included are conveyor bridges, 95,000 tonne capacity reinforced concrete silos and facilities for loading and unloading rail wagons and lorries. Buildings will include a control room/amenity block, power house, workshop, stores and substations. Derince is a port on the Sea of Marmara, about 110 km from Istanbul.

MANAGEMENT

UK computer industry

Rebuilding around an elusive core business

Once a star of the stock market, Alphameric is now under new management. **Vanessa Houlder** assesses its prospects

Even in a sector that is littered with fallen stars, Alphameric shone more brightly and then fell more steeply than most of its rivals. In its first three years on the stock market, the UK computer terminals company increased the value of its shares five-fold; in the next three, the shares lost 98 per cent of their value.

Matters came to a head last March, after a prolonged slump in orders from its financial and retail customers led to a projected loss of £11m for the year.

The company announced some emergency measures to reduce borrowings and replaced most of its board with a new team from Octagon Industries, a consultancy run by Geoff Bristow and Robb Wilmot, former executives of ICL, the British computer company. Octagon specialises in turning round troubled electronics companies.

The new management is confident that its plans to rationalise and restructure the business will pay off. City commentators, however, are not so sure. At issue are questions of whether the company should persist with manufacturing, whether it can successfully collaborate with larger companies and whether the rationalisation of its operations, combined with the expansion of its share capital, will leave it too emaciated to justify its independence.

There are also differing views on the extent of the blame for the company's past mishaps. Like many high technology companies, Alphameric's technical brilliance was marred by over-optimism and over-expansion but the company was also affected by a measure of bad luck.

At first, the company was well placed with a broader spread of products than most. It built its business on high margin, customised computer keyboards and terminals for City dealing rooms – a side of its business that took off in the heady days leading up to the Big Bang in 1986.

As its dealing room business nose-dived after the 1987 crash, it was able to pin its hopes on a data broadcast system for retailers. Its City investors shared its confidence and in April 1988 they stumped up £9m in a rights issue for new acquisitions.

But the retail customers vanished as rapidly as the financial ones when interest rates started to rise. And the timing of an acquisition of a financial systems supplier bought in an attempt to broaden Alphameric's customer base clearly was some way off the bottom of the cycle. A year ago, its markets having evaporated, Alphameric moved into loss.

By this stage, shareholders who wanted Alphameric to seek a merger with a larger group were berating the company for its over-optimism and a dilatory reaction to its disappearing markets.

It was also vulnerable to the criticism of over-ambition (in single-handedly developing the data broadcast system) and lack of depth of management. Given the pace of change of technology and markets, Alphameric could in some ways be applauded for its innovatory and expansive approach to new products and ideas.

But the result was that, for a small company, Alphameric had a surprisingly large number of separate subsidiaries and operating units all around the world. "At the end it was a bunch of entrepreneurs, all running little companies," says one analyst.

This criticism is also voiced by Geoff Bristow, the managing director of Octagon Industries, who is now chairman of Alphameric. "If all of the intellect of the board had been directed at a core business, it might have been better," he says.

This lack of an obvious core business complicated the task of the new managers. "You could not look at the company with the classic textbook approach: what is the core business? can they stick to their knitting? There was not one core business that was making money," says Bristow.

But the textbooks were not discarded entirely. The Octagon consultants visited all of Alphameric's operations, assessing them in terms of their strengths, weaknesses, opportunities and threats.

The managers of each operation were asked first to analyse their staff in terms of their skills and salaries and then to draw up their own mission statement. Bristow describes this as "the cornflake packet test". "A manager must be able to say in no more than 22 words: my company is going to be the best in its chosen field because . . . "

The fruit of all this labour was a decision to "re-focus the group's activities towards the aim of becoming a leading supplier of Man-Machine Interface Systems which provide state-of-the-art Command and Control capabilities."

For those unversed in the industry's jargon, this boils down to making computer systems easier to use. It may be quicker to use a "mouse" than a keyboard to input instructions; it may be clearer to display information in four "windows" on one screen rather than four separate screens. These kinds of improvement could make a significant difference to people using terminals in places like City dealing rooms, power stations and flight control rooms, where a quick reaction to new information is vital.

Accordingly, Bristow decided to make Alphameric's systems division its "star". It could build on its base in the equity and foreign exchange markets and eventually bring in new customers in allied markets such as transport and utilities.

In the short term, he aimed to make it profitable by cutting down the scale of the operation. Instead of installing an entire system including computer hardware and desks, it would focus solely on software and the maintenance of existing systems.

Geoff Bristow (left) and Robb Wilmot: turnround specialists

The problem, as Bristow admits, is that the business may now be too small to stand alone. A possible answer, as he sees it, is to get access to hardware expertise, marketing skills and credibility by collaborating with computer manufacturers wanting to get involved in this area.

Bristow is more confident about the prospects for the keyboard business, which he sees as the "cash cow". Its profitability can be improved, he thinks, by subcontracting much of the manufacturing operation and concentrating on its marketing and design expertise.

The strategy for both divisions has a common approach. Bristow says: "One should not believe one can do everything oneself. It is a fundamental flaw in thinking that is almost endemic in British industry. You can't meet the giants head on. You specialise and then collaborate."

Some analysts are sceptical, however. They worry that the company may be getting rid of too much of its business, aiming to replace it with even more ephemeral ventures. There is also concern that the company is now too small to create significant earnings for its shareholder base, which has been enlarged by two rights issues in the past two years.

There are also differing levels of confidence in the Octagon Industries team. Their credentials are in some ways impressive. Robb Wilmot, who is a non-executive director of Alphameric, was credited with the turnround of ICL when he was chief executive. Bristow also had experience at Texas Instruments and ICL before forming Octagon. He then led the turnround of Wordplex Information Systems, which increased its value from £6m to £19m before it was taken over by Norsk Data, a Norwegian computer company.

But the recent record of Octagon is flawed. A few weeks ago, Headland Group, which had been the subject of a rescue package by Octagon in 1987, fell back into the red and laid off a quarter of its staff. The aggressive growth strategy the company adopted after its apparent recovery a year ago has foundered after a trading downturn and an expensive software delay.

Bristow, who has now resumed his role of executive chairman relinquished a year ago, now thinks the company moved too far, too fast. "I was too ambitious although I think it is still on the right track. We could possibly have gone longer on the profit-before-growth phase."

Octagon will be careful not to repeat its mistake with Alphameric, which it expects to move back into profit next year. But Headland's stumble is indicative of how difficult it is to sustain a small, high technology company. The low barriers to entry, the rapid pace of change and the speed with which niche products become commodities in a short time makes life difficult for the strongest management. With Headland and Alphameric, the Octagon team will have its skills amply tested.

Service industries

Customer retention is the key to profitability

By Simon Holberton

Slowly but surely managers in the service industries are beginning to learn that "service" is a word that matters and not just a useful modifier to distinguish their activity from manufacturing.

US research has demonstrated the importance of the "delivery" of the service being sold. Some researchers, in analysing delivery, have gone so far as to suggest that the "service encounter" – the moment when the transaction takes place – is the service itself.

These ideas have been extremely important; they have helped change managers' thinking about service and its delivery. Intuitively, it seems reasonable that there should be a positive relationship between well served customers and companies' profitability.

The improvement of customer satisfaction is certainly a business virtue to which many aspire.

Bain & Company, a US management consultancy, interviewed a group of senior managers and found that virtually all agreed that customer satisfaction was important; 75 per cent had instituted programmes to improve quality.

However, few tangible results ensued from these programmes; only a third of those interviewed found significant improvement in market share or profitability.

Bain has attempted to analyse the relationship between service, customer satisfaction and profitability. Robin Buchanan*, a partner of the firm in the UK, says the key to profitability is to be found in customer retention; he says he has a method for identifying ways of improving retention and methods for implementing those improvements.

Buchanan defines customer retention as the number of customers present at both the beginning and end of a period divided by the number of those present at the beginning.

For example, if you have 100 customers in January and 110 in December but only 85 of the original 100 were still customers then your retention rate is 85 per cent.

The Bain premise is that the longer customers stay with a company the more profitable they become. This is for both positive and negative reasons.

● The cost of acquiring new customers is high. Retaining customers will directly increase profits by amortising the cost of acquiring the customer over a longer period of consumption.

Customers who stay tend, over time, to spend more. Buchanan cites a client in industrial distribution. Its customers who have used the company's services for 15 years spend more than four times the amount that a customer of two years does and eight times more than a brand new customer.

● Regular customers cost less to serve. In insurance, underwriting costs as a percentage of sales fall by 40 per cent for renewal policies. The reason: upfront costs need not be incurred again, particularly risk evaluation.

Negative publicity

● There are other benefits to having satisfied customers. Buchanan says that dissatisfied customers tell between eight and 15 others about their experience. "Just avoiding this negative publicity has a value," he says.

● Long-term customers are often willing to pay a premium for service. They are less prone to check competitiveness if they know and like the vendor.

High customer turnover is fertile ground for competitors. If retention is maximised the target group of customers for competitors shrinks; competitors have to try to dislodge them by offering inducements. This is expensive and time-consuming.

Bain calculated the impact on profits from a 5 per cent improvement in retention. The results are remarkable. For a credit card issuer a 5 per cent improvement in retention boosted profits by 125 per cent. For insurance brokers there was a 50 per cent increase in profits; a software company had a 35 per cent improvement in profits.

These are very large numbers and suggest that many companies in the service sector can produce a step change in profitability by paying closer attention to retaining the customers they have. It also suggests that the pursuit of market share for its own sake may be misguided.

Buchanan says the way forward for companies wanting to improve retention is to understand why they lose customers.

He gives this a fancy name – root cause analysis – but it is no more than applied research designed to locate faults within a service delivery system and conduct competitor activity analysis.

Looking inside the company, Buchanan suggests that the best way to improve the quality of delivery is to analyse segments of the business to determine which has the "best demonstrated practice" and duplicate that throughout the organisation, though this does raise the question of whether anything more than the least worst is being promoted.

Buchanan marshalls a lot of impressive evidence to suggest that customer retention is a pathway to much higher levels of profitability and success. But a reader is left wondering whether the shortest part of his presentation is not the most important.

This notes what other researchers in the field have been saying for some time. The best providers of service are those that are able to respond most quickly to complaints. This means giving to front-line providers of service the power to make refunds, etc. The other important point is the way some companies screen employees for those with a service orientation and make career advancement conditional upon giving good service.

**A fuller presentation of the above research is due to be delivered by Robin Buchanan at a British Airways-sponsored conference at the Institute of Directors in London today.*


RENAULT 25

ARTS

ARCHITECTURE

A society which is worthy of appreciation

I have always enjoyed the thought of those private worlds that are shared only by people with a particular common interest. I like the esoteric language of a gathering of dendrologists, or the peculiar nuances employed by knowledgable numismatists.

Such groups exist and indeed flourish in the world of architecture. There is a society devoted to the appreciation of Victorian buildings which is, as I write, touring with a large group of Americans around the declining inner cities of Britain. There is even a society which always sounds like rather a promising singles bar called the Thirties Society. In fact it is dedicated to the rapt examination of art deco and metal windows and must be worried stiff about the fate of Battersea Power Station.

Then there is the doyen of conservation societies founded by William Morris, The Society for the Protection of Ancient Buildings but the one which seems to be flourishing as never before is the group founded in 1937 as The Georgian Group.

It is not, as is sometime thought, a group of individuals devoted to dressing up in eighteenth century costume and prancing about at routs. It is dedicated to the saving of Georgian buildings monuments, parks and gardens from destruction. It encourages careful repair and restoration and has an educational mission to promote knowledge of Georgian architecture and town planning and the decorative arts.

Perhaps slightly more controversially, it wants to encourage, "the appreciation and enjoyment of all products of the classical tradition in England, from the time of Inigo Jones to the present day."

I have only ever played a nominal role on the group's committee and so I do not feel remotely compromised by confessing publicly my realisation of the effectiveness of the group and the impressiveness of the range of its activities.

You would think that every Englishman would want to preserve every Georgian house. After all, the well-proportioned red brick house with its white doorcase and white sash windows, is almost synonymous with our visual idea of the perfect home. But sadly the existence of a vigilante group like the Georgians is still necessary.

For example the Georgian Group, which now has statutory responsibilities combined with a small amount of government funding, receives some seven to eight thousand listed building notifications per year. This represents only those notifications received from local authorities.

There may be less severe cases of destruction than there were in the 1930s or 1950s (it is hard to believe that Carlton House Terrace was to be demolished in the thirties) but the group has to be eagle-eyed about alterations and the erosion of detail from everyday Georgian buildings.

The recently published Georgian Group Report and Journal gives an annual review of the state of the art of conservation. It is an excellent publication and one that should be more widely available.

I should have thought that most people would be shocked to see the state of Danson Park in Bexley, a large villa by Sir Robert Taylor.

The freeholder of this fine but decaying building is Bexley Borough Council and difficulties exist between the leaseholder and English Heritage. The villa, which is in the same league as Harleyford and Barlaston (both of which are being restored), is listed grade one. The leader of the council is on record as saying the he hoped the building would fall down to resolve the problem.

In Frome, Somerset, one of the jewels of the West Country's classical architecture, the Rook Lane Chapel has been a long standing problem. It is a huge and beautiful Non-Conformist chapel of 1707 which has sadly now lost most of its interior fittings. The county council wants to turn it into commercial offices but have found it difficult to find anyone willing to make offers to the current owners.

At the heart of Buxton in Derbyshire is the magnificent stone crescent designed by John Carr of York. A large part of this arcaded crescent is now an empty hotel which has been closed for a year and is deteriorating rapidly. It is on the market but buyers seem, naturally, to be discouraged by the condition of the fabric.

Danson Park in Bexley: difficulties exist between the leaseholder and English Heritage

Many parties are working to find a solution but it is extremely worrying that a building of such high quality and value to the town should ever have been allowed to decline into such an appalling condition.

Spitalfields Market, is on the doorstep of the group's premises. It is an important redevelopment that will very significantly effect one of the best early Georgian parts of London.

The group has struggled to modify the various schemes that have threatened to overwhelm the area. It is sometimes delicate for a conservation group to attempt to influence the design of new buildings. But the group is right to try to educate planners and developers and alert them to the quality of the surroundings.

With a generous annual grant from The Monument Trust, the Georgian Group is able to expand its educational work. The production of handbooks on Georgian windows, brickwork, doors, paint, colour, wallpaper mouldings and ironwork is very useful. In a world where the water board encloses hideous brochures urging you to buy aluminium double glazing with their bills, groups like the Georgians have to be equally active with the propaganda.

The group is well-known for its tours and lectures and the range of its activities is staggering. We need educational and propagandist conservationists as well as those who just like to look at old buildings. The Georgians are very much in tune with architectural thought at the moment. It demonstrates that we can all learn from our classical past, and learn with pleasure and enthusiasm.

The Georgian Group is at 37 Spital Square, London, E1. Tel: 071-377 1722, Fax: 071-247 3441.

Colin Amery

American Ballet Theatre

COLISEUM

American Ballet Theatre's final programmes at the end of their brief visit were a far truer (and also more flattering) portrait of the company than those at the beginning of the week.

On Saturday night Tudor's *The Leaves are Fading*, Mark Morris's *Drink to Me Only* and Agnes de Mille's *Rodeo* told a great deal about the company's identity across the years.

The Tudor piece is extravagantly "lyrical" to Dvorak string music, and there is a suspicion that too many feet are wet with autumn dews as it goes on, but it was performed with distinction by its cast, and in Amanda McKerrow the ballerina role has an outstanding exponent. With her exquisitely fine line, unfaltering ease, Miss McKerrow phrases the dance with a natural grace, colours it with gentlest variations of feeling as of dynamics.

I thought that this – together with Julio Bocca's astonishing *Don Quixote* – the most distinguished dancing of the season.

Leaves represents the ABT of the mid-70s. Morris's set of dance studies to Virgil Thomson's transcendental piano writing – a typically skilled matching where difficulty in one medium echoes and amplifies difficulty in another – is a portrait of ABT in the late 80s. I reported on this choreographic fire-cracker last year when the company was in Paris.

The image continues to be punchy, energetic, bright in technique, with a new-style bravura evident in such jolly moments as the Tango for three men, and exceptionally so in the ebullient dancing of both Gil Boggs and Robert Wallace in a role made for Baryshnikov.

And the "traditional" ABT is still there with *Rodeo*, wearing its near five decades with some lightness. It is cast-iron Americana, and nothing can erode its efficiency.

On Saturday evening, Kathleen Moore assumed the denims and tomboy ways of the Cowgirl, John Gardner was the Roper, Victor Barbee the Wrangler.

There was sunset on the back-cloth and the limitless plains, square-dancing, and a happy ending: we do not ask for more.

Clement Crisp

Hampstead gets Sugar Hill Blues

Liza Sadovy and Pauline Black find a passing harmony amid a clash of cultures and of musical styles in Kevin Hood's jazz odyssey *Sugar Hill Blues*, which was warmly reviewed on this page when it opened at the Croydon Warehouse in March.

This latest play by the award-winning author of *The Astronomer's Garden*, has just opened at the Hampstead Theatre.

Royal Ballet School

COVENT GARDEN

This year, as every year, there were the bright hopes and frantically applauding family and friends; the fresh faces and eternal eagerness; the whistle-clean dancing and the impeccable, innocent stage manners.

The Royal Ballet School matinee on Saturday was impressive, more ambitious than usual – and more rewarding. A collection of divertissements from Lower and Upper Schools began the afternoon – the rigid backs so right for jigs and reels not at all suited to the famous children's mazurka from *Paquita*. This is a speciality of the Vaganova School in Leningrad, where the youngsters learn early the nuances of national dance, but it looked frozen on our juniors, who elsewhere sparkled through folk dances with entire aplomb and the neatest feet.

From the senior students three delights: an excellently schooled entry of 28 Shades from *La Bayadère* which was superior to many a professional performance, and a gravely radiant account of the pas de deux from MacMillan's *Concerto*.

This introduced the lovely Monica Zamora, huge-eyed, boasting a face which "reads" wonderfully in the theatre, and a lyricism of style that overcame funereal tempi. She was well partnered by the courteous Robert Tewsley.

The re-staging of *Little Improvisations* which Antony Tudor made for his students at the Juilliard School in New York was very imaginative. Schumann's *Scenes from Childhood*, and a boy and girl (John Howells, Jane Burn) playing games. Tudor's dramatic sensitivities work powerfully – a piece of cloth becomes a baby to be nursed, and when the fantasy ends, a sudden gust of sadness exquisitely caught by Miss Burn.

The Rake's Progress next, fresh from Dame Ninette's hands, and given with real gusto with a very remarkable impersonation of the Rake by Matthew Hart. A careful beginning – the first scene is difficult because it looks so easy – but then Mr Hart claimed the role. The card scene had a cutting edge of despair; the madhouse agonies were controlled and heart-tearing.

Mr Hart is an artist in the making – he is also an apprentice choreographer worth watching – and there was fine support from his colleagues, including the sincere, touching Betrayed Girl of Sarah Wildor.

Finally a *Napoli* divertissement with Bournonville's bounding felicities cleverly shared out among the young.

The staging has been made by two eminent Danes, Anne-Marie Vessel and Flemming Ryberg. And it is in the clarity of the RBS dancers that there is something of the precision which marked the dancing of Mr Ryberg, the purest and most elegant of Bournonville stylists. It also marked the charm of Miss Vessel's performances.

It was not quite buoyant enough, perhaps, from the all the students, although I greatly liked Eleanor O'Connell's musical phrasing in her solo. But nevertheless, it was an excellent way to end an excellent matinee.

Clement Crisp

Capriccio

GLYNDEBOURNE

Strauss's conversation-piece returned to Glyndebourne on Saturday in the familiar, well-liked production by John Cox.

Bernard Haitink conducted a lively, polished performance, polished not in the sense of "stream of golden sound" but thoughtful, vital, highly differentiated in instrumental colour. His reading let many more words through than usual.

Only in the lyrical (verbally fairly conventional) avowals of love did Haitink allow the London Philharmonic to rise over the singers. The debates about the primacy of words or music were most carefully treated. When sheen and warmth were called for, they were forthcoming.

Of course when the words come over so well, one notices how often the text contradicts the updating of the costumes to the twenties – references to Gluck and Goldoni either make no sense or sound affected. Dennis Lennon's set (not updated except for the furnishings) has outstayed its welcome.

The blue walls seem to grow darker at every revival. The deliberate avoidance of 18th century clichés is understandable (German attempts in this opera at French rococo commonly look like restaurant repro) but *Capriccio* is about an informal day in a country house for the purpose of mainly amateur theatricals - the guests are not even staying for supper.

There is no need to design for a great social occasion like the second act of *Rosenkavalier*.

The touch of severity in Felicity Lott's hair-do and with it a suggestion of blue-stocking, before she changes for the evening meal, was thus exactly right. Miss Lott duly softened her manner for the final scene which, once again, she did to admiration.

As her brother the Count, the rich-voiced Jeffrey Black was so operatic in manner that the character's objections to the genre seemed more than usually superficial.

As the two rivals, composer Flamand and poet Olivier, David Kuebler and Dale Duesing were more sharply contrasted in their manner (composer Flamand the more fastidious of the two) than in appearance. There was an important debut with Brigitte Fassbaender following (high time, too) in her distinguished father's footsteps. Willi Domgraf-Fassbaender was the first Glyndebourne Figaro and played other leading roles in the pre-war seasons.

This fine mezzo needs no praise on this page. As Clairon the actress, come to rehearse the play which the besotted Count has written for her, Fassbaender gave a study of friendly flamboyance remarkable among other things for her refusal to exaggerate. Many opera singers could learn from her how to listen on stage.

Ernst Gutstein returns to the role of Laroche the theatre-director (the most important in the opera after the Countess), giving a splendid display of ripe character-singing, energetic but controlled, full of authority.

A passing sign of fatigue (it was a hot evening) in the big monologue in the second part was soon over.

Marta Taddei and Bonaventura Bottone made the antics of the Italian singers quite entertaining. Francis Egerton was the tiny, aged prompter, Monsieur Taupe. Robert Hayward brought poise and perfect timing to the small but rewarding part of the major-domo.

Ronald Crichton

Le Comte Ory

ROYAL COLLEGE OF MUSIC

When the RCM announced performances of Rossini's comedy one assumed that they had done this on the strength of an outstanding student capable of handling the virtuosos title role written for Nourrit.

Alas, this proved not to be case on the first night last Friday. The unfortunate tenor's lack of the necessary high notes must have been as embarrassing for him as it was for the audience.

Since, in spite of the availability of at least two translations, the performances were given in French, one assumed there were special strengths in that department too.

Wrong again: even though two language coaches were listed in the programme, the standard of pronunciation and declamation seldom rose above that of the secondary school.

Presumably what led the College to settle on *Ory* was the presence in Rosemary Joshua of a coloratura soprano with all the notes for the Countess, an impressive technique and clean, penetrating tone. It is near-tragic that such abundant promise should have fallen victim to the single most depressing aspect of what was the worst college production I have seen in years: the abysmally low level of musical preparation and accompaniment.

One longed for just one phrase to be sung with an ounce of the wit, musical joy and dangerous sensuousness that in normal circumstances can scarcely help welling out of this miraculous score. But no: in the pit James Lockhart bashed his way through the music in strict tempo at a dynamic level varying only between a hearty *mezzoforte* and *fortissimo*, and the hapless cast could only follow suit: of charm, humour and grace there was no sign.

If Mr Lockhart is as out of sympathy with Rossini as he sounds – and he has a perfect right to be – then he could at least have handed the baton over to someone else.

Compounding the indignities heaped on Rossini was Mike Ashman's broadly farcical production, which was coarse even on its own level and light years from a comedy that is all slyness, understatement and insinuation.

To play the Countess as a vulgar little sexpot is to remove at least two layers from Rossini's multi-layered depiction of this delirious comic character. Bernard Culshaw's zany decor would have done nicely for *Les Mamelles de Tirésias*, which was unfortunately not on show.

The best performance, sung in recogniseable French, came from Der-Shin Wang as Isolier: her natural musicianship survived even the efforts of the *répétiteurs*.

Guy Harbottle (Raimbaud), extremely modest of voice, looked a great deal more pleased with himself than he had any right to be. Enough: this performance was an absolute disgrace, and repeats during the course of the week should be avoided like the proverbial bubonic.

Rodney Milnes

London Brass

ELIZABETH HALL

London Brass is not a brass band but a brass *ensemble*, 10-strong, and featuring orchestral instruments (trumpets, horn, trombones, tuba) rather than band instruments such as the cornet, tenor horn and euphonium.

They play a wide repertory and have been expanding it by commissioning new works and setting up a composers competition.

Three of the former and three fruits of the latter were presented to a tiny audience at the Queen Elizabeth Hall on Friday night.

The level of ability declared by the competition pieces was startling. All three gave evidence of a fine ear, a confident understanding of brass techniques and idioms, and a strong sense of musical form. All three, as Nigel Osborne (spokesman for the panel of judges - the three composers also on the programme) pointed out, had a notable freshness of sound and independent-mindedness of approach.

All three were distinctly enjoyable.

Margaret O'Hagan's *Cacophony* was a misleadingly titled, deft and satisfying manipulation of sub-groups of the ensemble.

Deidre Gribbin's *The Isamnion Fragments* was a subtly imaginative piece with a haunting early passage in quiet dotted rhythms which made me sit up.

I would very much like to hear the work again.

Matthew King's *Recitative from The Book of Job* was the most ambitious and extended of the three, with a sizeable obbligato part for horn (Frank Lloyd).

It was highly impressive and deserved to win first prize, but it is those dotted rhythms by Deidre Gribbin (she and O'Hagan were awarded a joint second prize) that remain in my mind.

The ensemble, conducted by trombonist Roger Harvey, gave the works immaculate performances. Whether soulfully smooth in the way that only brass ensembles can be, or slicing, biting or crunching, their sound is irresistible to the ear.

The three commissioned works were played without conductor, unless you count as such the rather sinister-looking metronome prominently deployed as a non-electronic "click-track" in Dominic Muldowney's complex but vivid *Un Carnaval cubiste* (1989).

Anthony Payne's *Fanfares and Processional* (1986) was striking for, among other things, the way in which it was able to make the opposed musical states of its title sound simultaneously.

Nigel Osborne's absorbing new Canzona offered a musical impression of a Turner impression of Venice, and drew on formal methods used by that Venetian composer for brass ensembles, Giovanni Gabrieli.

Paul Driver

Welsh National Opera to visit Japan

The Welsh National Opera is to make its first visit to Japan in the autumn.

It will present six performances at the new Bunkamura theatre in Tokyo.

As part of the festival of British Culture, UK 90, WNO's performances are being sponsored by the Tokyo Bunkamura Inc.

They will be Peter Stein's production of Verdi's *Falstaff* and André Engel's of Strauss's *Salome*.

Richard Armstrong, WNO's former Musical Director, will conduct both.

ARTS GUIDE

July 13-19

MUSIC

London

Auryn String Quartet. Haydn, Mozart, Beethoven (Tues). Stationers' Hall, Ave Maria Lane, EC4. (071-248-4260).

London Chamber Orchestra. All Mozart programme (Wed). Queen Elizabeth Hall, South Bank Centre (071-928-8800).

City of London Sinfonia and London Symphony Chorus conducted by Richard Hickox. Tippett's *A Child of our Time* (Wed). Southwark Cathedral (071-248-4260).

Festivals in France Paris

Festival Estival.

Ensemble Musique Oblique conducted by Georges Benjamin. G. Benjamin, Murail, Harvey (Tue). Auditorium des Halles.

Il Seminario Musicale with Gerard Lesne as conductor and counter-tenor: Vivaldi (Wed). Saint-Severin Church.

Byzantine and Syriac chants accompanied by lute, flute andoriental cither (Thur). Notre-Dame-du-Travail Church, 59, Rue Vercingetorix. Metro Pernety (48049801).

Montpellier

Montpellier and Radio France International Festival stages 80 concerts, among them a Franck Martin oratorio, Martucci's *Chants du Souvenir*, pianists Victoria Postnikova, Firkusny, Kvapil, Chiu and 15 jazz concerts. July 13-Aug 2 (67523433).

Beaune

International Encounters. L'Orchestre du Siecle des Lumieres, Gand Collegium Vocale, Amsterdam Baroque Chamber Orchestra and Ton Koopman, the Soviet State Symphony Orchestra. Ends July 22 (80222451).

La Chaise-Dieu

La Grande Ecurieet Chambre du Roy, conducted by Claude Malgoire, Moscow Philharmonic Orchestra. Aug 23-Sept 3. (71094828).

Brussels

Xenia Konsek (soprano), Olivier Roberti (piano). Lieder by Mozart, Schubert (Thur). Centre Culturel des Riches-Claires, 24 Rue des Riches-Claires.

Antwerp

Aulne Music festival. Gozee, Abbaye d'Aulne (Thurs) (071/59.10.01).

Amsterdam

Daniel Wayenberg (piano). Chopin, Liszt (Tues). Concertgebouw (718 345).

Hungarian Virtuosi with Miklos Szenthelyi, James Brooks Bruzzese. Boccherini, Barber, Bartok, Vivaldi (Thur). Concertgebouw (718 345).

Weimar

Cultural Festival (July 16-Aug 11). Weimar, the centre of German classical culture, is to stage the first pan-German festival, profits from which will go to be reconstruction of this badly neglected city. Directed by Kari Steff-Wolfsjaeger, the festival will be staged in the original houses of Goethe, Schiller, Liszt, Bach, who will be the central themes of the four week events. (0228/693969; fax 695158).

Schleswig Holstein Festival

This year's 5th Schleswig Holstein festival, initiated and directed by Justus Frantz, has been enlarged to nearly 180 concerts in 32 different venues. The festival's own orchestra, will train throughout the summer in Salzau with 5 different conductors, Sir Georg Solti, Christoph Eschenbach, Jiri Belohlavak, Paavo Berglund and Semyon Bychko. Soloists include Alban Berg Quartet, Igor Oistrach, Natalia Gutman: Boris Pergamenschikow, Heinrich Schiff, Olaf Baer, Dietrich Fischer-Dieskau, Hermann Prey, Peter Schreier, Arleen Auger, Christa Ludwig, Rudolf Buchbinder, Barry Douglas: Katia and Marielle Labeque, Murray Perahia and James Galway. Until August 19. Information: Kartenzentrale Schleswig Holstein Musik Festival Postfach 3840, 2300 Kiel Tel (0431) 567080.

Rome

Serenate in Chiostro 1990. Chamber concerts in the beautiful cloister of S. Maria Della Pace. The Piccola Academia conducted by Marcello Bufalini playing Mozart, Haydn and Beethoven (Thur) (6868441).

Roma/Europa Festival. Romanian composer Aurele Stroe's *Le Eumenidi o la Citta Aperta* and ancient and modern folk music from Greece (Tues, Wed). Contemporary German music by young composers from the German Academy (Wed), Spanish Academy, also works by young composers at the French Academy (Thur). Palazzo Farnese (info 3230884; tickets 654460111)

Barcelona

Concerto Italiano conducted by Rinaldo Alessandrini. Monteverdi, Castello, Cavalieri, Frescobaldi (Tues). Placa del Rei (318 25 25).

New York

Mostly Mozart Festival. Jean-Pierre Rampal (flute) and the Mendelssohn String Quartet with John Ritter (piano). Mozart, Haydn, Kuhlau (Mon); Mostly Mozart Festival Orchestra conducted by Gerard Schwarz with Jean-Pierre Rampal (flute) and Cecilia Bartoli (mezzo-soprano). Vanhal, Pleyel, Mozart, Rossini (Tue, Wed); Tokyo String Quartet with Richard Stoltzman (clarinet) and Kazuhito Yamashita (guitar). Boccherini, Mozart, Beethoven (Thur). Avery Fisher Hall, Lincoln Center (874 6770).

St Luke's Chamber Ensemble with Deborah Hoffman (harp). Baerman, Bruce Adolphe, Mozart (Thur). Caramoor Festival, Katonah (914 232 1252).

Chicago

Ravinia Festival. Beaux Arts Trio. Haydn, Copland, Smetana, Schubert (Mon) and Haydn, Mendelssohn, Dvorak (Tue); Chicago Symphony Orchestra conducted by James Conlon. Mahler (Thur). Highland Park (728 4642).

FINANCIAL TIMES

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Monday July 16 1990

The choices in Europe

THE immediate effect of the resignation of Mr Nicholas Ridley over the weekend was that the British opponents of European monetary union – and its corollary closer political union – will now be weakened.

Mr Ridley's successor as Secretary for Trade and Industry is Mr Peter Lilley, a "No Turning Back" Conservative of like-minded persuasion. This retains the nominal balance of opinion within Mrs Margaret Thatcher's Cabinet, but Mr Lilley does not bring to the job the weight of experience and assertiveness that gave Mr Ridley his strength.

The proponents of pragmatism and compromise, such as Mr Douglas Hurd, Foreign Secretary, and Mr John Major, the Chancellor, will be the gainers. Mr Hurd's smooth diplomatic phrases have been combined with Mr Major's diversionary deployment of a plan for a "hard" European currency unit. Their purpose has been to bridge the growing divide between those Tories who are fundamentally opposed to the absorption of the UK into what may one day become a quasi-federal European Community and those who see this as an inevitable consequence of the loss of empire and the dissolution of the special relationship with the US.

Until last week this strategy seemed to be working, at least in terms of maintaining the unity of the party, but it may have been blown away by the publication of Mr Ridley's interview in the Spectator on Thursday, not to mention the subsequent efforts of his friends and supporters within the Government to dissuade him from resigning.

The Prime Minister's failure to take immediate action, and her evident half-desire to retain him in her Cabinet confirm the picture of her as one whose instincts are not very far from his own. Mrs Thatcher is not by nature comfortable with compromise. She may now have no option but to accept Britain's early entry into the exchange rate mechanism of the European Monetary System, but it is impossible to imagine her acceding to monetary union or any seriously authoritative European federal reserve bank, or further genuine political union.

During the coming 18 months it will become increasingly difficult to avoid declarations of support for, or opposition to, steps in the direction of each of these apparent EC goals. From the Tory point of view this could be an extremely damaging year and a half. An internal debate with the destructive potential of the 19th century row over the Corn Laws must now be conducted in the open. Previous internal disputes on the EC resulted in the loss from the Cabinet of Mr Michael Heseltine, Mr Leon Brittan and Mr Nigel Lawson, plus the sideways move of Sir Geoffrey Howe; all of those could come to seem like dress rehearsals for what lies ahead.

Potential victim

Everyone knows where Mrs Thatcher stands; the consequence is that she herself could be the ultimate political victim of what is without question the most serious split among Conservatives since 1945.

From the national point of view the clarification of the debate along Ridley-Thatcher lines could, if properly channelled, turn out to be beneficial.

The acceptance of a single currency and a Eurofed would significantly alter the character of the British polity. Britain is not well-placed to take best advantage of these likely developments, while it cannot afford to stand alone outside them.

This fact needs to be faced, and the proper conclusions drawn. The best lines of debate would be to begin with the proposition that it is never to late to make a fresh start. The need is for what Mrs Thatcher would no doubt label "sound" policies on education and training, a monetary policy freed from the electoral cycle, and a willingness to go through what would be some years of difficult adjustment.

Only such a package would put Britain in a position to compete with France and Germany rather than whinge about their strength. If Mr Ridley has helped by his departure to clarify these issues, he will have done a greater service than any he did in office.

A strategy for world poverty

PEACE IS starting to break out all over the world. Prosperity is not. One billion people – one in five of the world's population – are struggling to exist on less than $1 a day, one of the World Bank's definitions of poverty. The figures are the more shaming for the billions of dollars of aid misdirected by donor countries and misused by recipients in the last four decades.

As the threat of military confrontation between superpowers recedes, perhaps the best hope for the deprived, who live primarily in South Asia and in sub-Saharan Africa, is that their plight might crawl higher up the list of priorities for the last decade of this century.

This does not necessarily mean throwing more good cash after bad. The World Bank's *World Development Report 1990*, published today, reminds us of lost opportunities and wasted expenditure.

Whether it was the promotion of economic growth as the key to reducing poverty, *de rigueur* in the 1950s and 1960s, or the more recent well-intentioned but often unfocussed shift towards policy-based lending by institutions such as the World Bank, the results have not been good.

Wrong turning

It is true that incomes, even of those still impoverished, have been rising. Life expectancy, infant survival and enrolment for primary education have improved in many countries. But destitution remains all too instantly visible throughout the developing world; there are enough abandoned irrigation projects and broken water pumps, unrepaired through lack of training or because of the uselessness of an instruction leaflet to an illiterate peasant farmer, to underline how badly things have gone wrong.

Today's report has some sensible suggestions for a better way forward. The most important is the need to attack poverty on two fronts simultaneously, promoting the productive use of the poor's most valuable asset – labour – together with the provision of essential social services of which basic health care and primary education are arguably the most important.

If any one lesson has been learned in the last 40 years of aid to the Third World it is that each of these strategy arms will fail without the other.

While developing countries will need to adjust their domestic policies to assist the poor and use their labour, they require concomitant changes in international policy.

Industrial country liberalisation, particularly in farm trade policies, remains an important goal, although for some poor countries the benefits might be slow to materialise.

Essential revision

A revision of aid policies is essential, and the results would be quick to make an impact. In 1988 official development assistance was $81bn, half the net receipts of external capital of the developing world. Poverty alleviation was often not a priority.

The reports sums up the problem succinctly: "Enormous sums have been spent for purposes that have nothing whatever to do with reducing poverty – military expenditures, for example, and lavish cathedrals in the desert." In 1986 the developing countries spent $159bn on their armed forces, five times their receipts in aid.

This is absurd. The onus must now be on developing countries to show that they are more interested in fighting poverty than fighting each other. The industrialised countries must become more concerned about the use of aid dollars for aid than as indirect subsidies to their arms procurement industries. In spite of obvious objections of paternalism and interventionism, it seems only sensible that allocation of development aid should depend largely on the uses countries make of their overall resources and on the seriousness they demonstrate towards the reduction of poverty.

If *The World Development Report* cannot report in the year 2000 that the number of poor in Africa has been contained and that the numbers elsewhere have been halved, the governments of both developed and developing countries will be responsible for ending the century on a note of abject and avoidable failure.

Guy de Jonquières and Will Dawkins on the risky strategy pursued by France's leading electronics company

Keeping cool in a high-stakes game

Mr Alain Gomez, chairman of Thomson, France's leading electronics company, has a poker player's nerve. In the face of rapidly mounting risks and uncertainties in all the state-owned group's main businesses, he is betting everything on an audacious game of double or quits.

Riding on his gamble is Thomson's future as Europe's largest defence electronics supplier, its second-biggest consumer electronics manufacturer and an important player in semiconductors. Also at stake is French national pride – and huge state investments in Thomson's quest for global industrial leadership.

Thomson has defied the French Government's broader retreat from interventionism and clung to a traditional national champion role by wrapping itself in the European flag. Like the troubled Dutch Philips group, it insists its fate will determine whether Europe can retain an advanced electronics industry at all – or will be obliged to submit to Japanese dominance.

After appraising Thomson's portfolio of activities, many businessmen might be tempted to conclude that its best hope would be to cut and run. However, far from pulling back, it is plunging – or being drawn – into still deeper commitments to its mainstream operations:

- In defence electronics, about 40 per cent of its FFr76.7bn turnover last year, Thomson has reacted to weaker orders and an uncertain market by launching a succession of bold acquisitions and alliances across Europe.
- In consumer electronics, at best a marginally profitable business subject to intense competition, Thomson plans to spend FFr20bn over five years, chiefly in an effort to leapfrog the Japanese in the as yet unproven market for High-Definition Television (HDTV) systems.
- In semiconductors – the economics of which Mr Gomez describes as "devilish" – Thomson is committed to a policy of technological independence which will require large investments in SGS-Thomson (ST), the third-largest European-owned chipmaker, in which it has a 50 per cent stake.

Thomson executives say state ownership allows them to pursue plans riskier than some analysts think prudent

The 51-year-old Mr Gomez says his group aims to achieve a durable world-class position in all these businesses. Though such claims are widely questioned, even sceptics say his impressive record as a manager makes them hard to dismiss lightly.

A former paratrooper who graduated from France's elite Ecole Nationale d'Administration, Mr Gomez became chairman of Thomson in 1982, when the group was near-bankrupt. He has restored it to profit by drastically rationalising its businesses, galvanising its management and imposing stringent commercial disciplines.

However, the challenges today look at least as stiff as those eight years ago. "Gomez saved Thomson once," says Mr Paul Goldschmidt of the Paris office of management consultants Bain. "The question is, can he do it a second time?"

Fortunately for Mr Gomez, he has a powerful ally in the French Government, which owns all of Thomson S.A., the group holding company, and its consumer electronics and white goods businesses. It also controls 60 per cent of Thomson-CSF, the group's publicly-quoted defence subsidiary.

Thomson executives say state ownership allows them to pursue risky long-term strategies – riskier than some industry analysts think prudent. Says Mr Piers Whitehead of Robert Fleming Securities in London: "Thomson S.A. does things no quoted company can do. Thomson-CSF does things no quoted company should do."

The stock market seems to agree. Thomson-CSF's share price has halved in the past 18 months and is barely a third of its 1986 high of FFr352. New defence orders have fallen to only three-quarters the level of sales, which Mr Gomez expects to decline 20 per cent by 1995. Some analysts expect profits to drop even more steeply after a lucrative $4bn Saudi missile system contract ends in 1992.

So far, the French defence ministry has not cut spending and is seeking an *increase* next year. However, the ministry accounted for less than 40 per cent of Thomson's defence sales last year, and it is in any case doubtful that it can resist cuts indefinitely. "We'll be crossing the desert for the next few years," says Mr Bernard Cambier, a Thomson-CSF director-general.

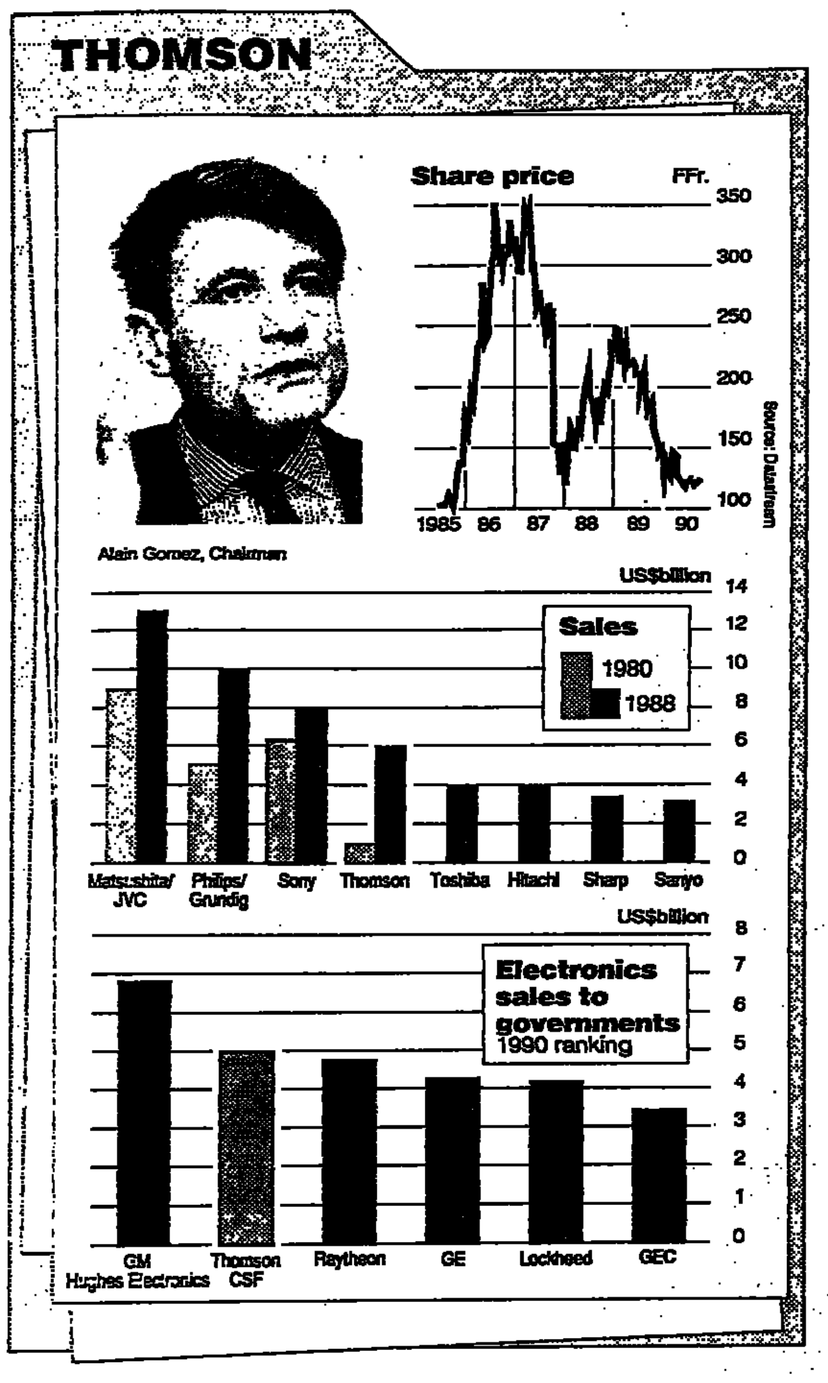
Mr Gomez has promised that Thomson-CSF's margins will remain at 5 per cent to 6 per cent of sales. But it seems likely to have to rely heavily on investment income, which provided almost half its FFr2.63bn profits last year. It accumulated a sizable cash mountain in the 1980s, which it exchanged for 14 per cent of Crédit Lyonnais last year on orders from the Government, which was anxious to re-capitalise the nationalised bank.

Though Thomson-CSF is optimistic about increased military sales in Asia and prospects in air traffic control systems, its strategy hinges on capturing a bigger share of a shrinking European defence market by absorbing smaller rivals. It recently bought most of Philips's European defence electronics activities, the British simulator manufacturer, Link-Miles, and a half share in Ferranti's sonar business in the UK, after failing to buy Ferranti's radar operations.

Mr Alain Hagelauer, Thomson's finance director, says it could raise more than FFr20bn for further acquisitions, but adds: "We're not buying companies right, left and centre just for the sake of it." Where Thomson cannot acquire, it is going for alliances – with British Aerospace in missile systems, with General Electric Company in radar development and with Aérospatiale in avionics.

To pay off, the strategy needs to produce not only research and development savings, but access to new markets. But Mr Gomez complains that defence procurement in Europe is still dominated by "jingoist" attitudes and fears efforts to acquire US defence contractors will continue to meet opposition there.

On this score, state ownership may prove a double-edged sword. Though it gives Thomson access to greater resources than many of its privately-owned European rivals, it risks creating political obstacles to foreign expansion by fuelling suspicions that the group is a vehicle for promoting French national interests.



Thomson's next most pressing problem is the mounting cost of its involvement in semiconductor production, which Mr Gomez calls "absolutely essential protection . . . If we did not ensure our semiconductor base, it is pretty obvious Japanese semiconductor companies would control 100 per cent of the market and we would depend on them. That is not acceptable."

ST, formed by merging Thomson's semiconductor business with the state-owned SGS-Ates of Italy in 1987, scraped into the black last year after heavy losses. However, ST's management believes that, to survive, it needs sales at least treble last year's $1.3bn and must enter the fiercely competitive business of mass-producing D-Ram memory chips. Both courses require huge investments – for highly uncertain financial returns.

ST and its parents hope to share the costs with a partner. West Germany's Siemens, the only European-owned D-Ram producer, is the front-runner, though an agreement still seems some way off. But a deal would offer only a partial solution. Even in a good year, margins in volume chipmaking are too slim to cover the business's voracious capital needs, which must increasingly be funded by profits earned on products which use chips.

As a free-standing chipmaker, ST is at a disadvantage against its vertically integrated Japanese rivals, which sell much of their output in-house. ST supplies few chips to Thomson-CSF and only about 15 per cent of the more specialised components used by Thomson Consumer Electronics (TCE). Mr Gomez wants to double that proportion, but only if ST is competitive on price and quality.

Thomson's biggest gamble by far, however, is in consumer electronics, where it has expanded so far by rapid acquisition. Since the 1970s it has bought a string of smaller European rivals and in 1987 entered the US by purchasing RCA. But its increased scale has yet to yield worthwhile profits. In 1988, the last year it published results, TCE made a FFr222m net loss on sales of FFr33.9bn.

TCE is seeking to cut costs by moving production offshore: it already makes all its smaller colour television sets and tubes in south-east Asia, and many of its video-recorders will come from a new Singapore plant shared with Toshiba of Japan. None the less, and despite extensive protection from European Community anti-dumping actions, Thomson complains it is suffering badly from continuously falling prices in the industry.

Its chances of fighting back hinge crucially on HDTV, a highly sophisticated new generation of television offering improved picture quality and innovative features. As well as offering a large new market for sets and video-recorders, HDTV is expected to generate technological spin-offs for Thomson-CSF, which enjoys few synergies with TCE today.

Though the Japanese pioneered HDTV, Thomson thinks it can beat them at their own game. With Philips, it has persuaded Europe to adopt its own HDTV standard, which is technically incompatible with the system in Japan. The companies hope to win a vital breathing space by depriving Japanese consumer electronics manufacturers of the advantages they gain by using their closed home market as a springboard for overseas expansion. To compete in HDTV in Europe, the Japanese will need to start from scratch, using European technology.

But Thomson wants more. It is seeking to match Japanese industry's favourable cost of capital by securing French Government subsidies for its HDTV research and development efforts. It is also urging stiffer EC anti-dumping penalties against Japanese imports and special tariff protection on consumer electronics products.

The French Government, which views HDTV almost as a religious crusade and last year injected FFr2bn in equity capital into Thomson, is expected to back these demands. The crucial question is whether even the whole-hearted support of the French state will be enough.

There is growing concern in Paris at the attitude of West German broadcasting organisations which, Thomson fears, are seeking a pretext to pull out of HDTV altogether. That could leave France as the only country fully committed to the "European" system.

Furthermore, any government assistance to Thomson is bound to attract close scrutiny from EC competition watchdogs, which insist that it must be on strict commercial terms. Demands for still more trade protection could also prove hard to sell in Brussels, when the General Agreement on Tariffs and Trade Uruguay Round is faltering and some EC governments believe the Commission is already bending its anti-dumping rules too far.

Ultimately, though, the HDTV battle will be decided by consumer preference. Thomson has yet to develop its products and technology and is banking on a planned FFr20bn collaborative effort with Philips. But prospects have been clouded by the financial crisis at the Dutch company, whose relations with Thomson have in any case been increasingly strained by tensions at senior management level.

In the face of all these challenges, Mr Gomez remains philosophical. "You have your choice," he says. "Either you get out, or you do your best to stay in the race." The coming decade should show whether Thomson holds enough high cards to bid for the jackpot. If not, its only realistic option may be to throw in its hand with one of the Japanese competitors which, it insists vigorously today, are out to undermine Europe's industrial future.

A second article about Thomson will appear on tomorrow's Technology Page

OBSERVER

One Warburg too many

■ The death of the 90-year-old Eric Warburg last week ends one of the more controversial chapters in the history of the Warburg banking dynasty. If Eric Warburg, the fifth generation to head the family bank in Hamburg, had got on better with his cousin, the late Sir Siegmund Warburg, one of Europe's most famous banking families might have been considerably more powerful than it is today.

Eric's father, Max Warburg, ran the family bank, M M Warburg, where both he and the slightly younger Siegmund trained. In the early 1920s, after working briefly for one of his uncles in New York, Eric dropped out in Oregon. Uncle Paul, who helped found the US Federal Reserve system, was sent to persuade him to return, and for the next 15 years Eric shuffled back and forth between New York and Hamburg on his father's banking business.

He fought with the German army in the First World War, but by the late 1930s the rising tide of anti-semitism in Germany forced him to follow Siegmund and flee the country. He served as a lieutenant colonel in the US army intelligence and was the first to interrogate Goering. Meanwhile, Siegmund had moved to London and set up the New Trading Company.

It was only after the war that the differences between the two men surfaced. According to Jacques Attali's biography of Sir Siegmund Warburg, Eric refused to support Siegmund's desire that the Hamburg bank change its name back to M M Warburg, from Brinckmann, Wirtz & Co, after the Warburgs resumed their interest. It was not till 1970 that it became Warburg-Brinckmann, Wirtz & Co, and it is only now in the process of renaming itself M M Warburg again.

In 1946 Siegmund changed the name of the New Trading Company to S G Warburg, much to the annoyance of Eric, according to Attali. Until then there had only been one Warburg bank. But Siegmund argued that since the Hamburg bank did not have Warburg in its name and Eric had founded his own New York firm, E M Warburg, it left him free to set up his own bank. The rest is history.

Truce

■ Ex-Tory ministers are always in big demand as merchant bank directors. Sir John Nott was snapped up by Lazard, Lord Young went to Salomon Brothers and Nigel Lawson is learning the trade at BZW. Doubtless, Nicholas Ridley will be showered with similar job offers.

How about Morgan Grenfell underlining its independence from its Deutsche Bank parent by inviting him on to its board?

Obsolete

■ It sounds as if Trevor Nicholas, the doyen of Britain's electronic bankers, has become a victim of the quickening pace of technological development, just as Barclays, his employer, embarks on a £200m project to overhaul its branch banking network.

The 54-year-old Nicholas, who took charge of the bank's computer operations in 1982 after a high profile spell as chief executive of Barclaycard, preaches a gradualist approach to technological change. His successor as chief information officer is 42-year old Joseph De Feo, formerly group information technology director at Morgan Grenfell.

De Feo hails from New York and his more aggressive approach is more in tune with the new brooms at the top of Barclays. "I expect we would

"The war is over for you, Nicholas."

both end up in the same place in the end," muses Nicholas, without apparent rancour.

Having taken early retirement last week, he says that his greatest satisfaction at Barclays was the development of the bank's global banking network; his greatest disappointment, his inability to do more to bridge the gap between the technocrats and top managers that bedevils so much of UK business.

Some sauce

■ It is good to see that Antoine Riboud, the 71-year-old chairman of BSN, the fast-growing French food conglomerate, is treating Britain's HP sauce with the respect a national treasure deserves. When he bought the company from Hanson two year ago, he said that it was not so much a "condiment as a British institution."

Now he has appointed Henri Giscard d'Estaing, the 34-year-old son of the former French president, to head the company making the brown sauce – an indispensable item on every British table from the Commons dining room to the lowliest works canteen.

Were it not for the fact that Giscard junior is a career BSN manager, the move would have sounded like the ultimate example of the political gravy train in action.

Wrapping paper

■ The living is tough in Kenneth Kaunda's Zambia. Inflation tops 100 per cent and there is an unofficial market in almost everything, from a loaf of bread to a Mercedes Benz – even the Financial Times. The FT's value on Lusaka's streets varies according to availability. Most Zambian politicians still find such laws of free market economics distasteful. Not so their wives.

According to the wife of one senior member of the ruling party who on-sells her husband's subscription, if supplies are good one copy fetches 10 kwacha (15p). But if there is a bottleneck one issue can go for as much as 50 kwacha (80p).

Demand for the paper is especially strong among Lusaka's commodity traders, and it is not for the financial information. The pink pages make an attractive wrapper for their increasingly costly vegetables.

Another chukka

■ Prince Charles's arm is on the mend and so is the relationship between polo and its sponsors. Cartier has calmed fears that it will withdraw its support of the Cartier International, Europe's top polo day, on July 29 by announcing that it has renewed its contract for the next three years. "We feel strongly about the day," said a spokesman. "If the Prince plays it is marvellous, but if not, it doesn't damage the event, which is the only polo venue that can attract an audience of some 25,000."

At the heart of eastern Europe's political culture: from left, Ion Iliescu, Roman Petre, Jozsef Antall, Petar Mladenov, Tadeusz Mazowiecki, Lech Walesa, Vaclav Havel

Forming a habit on a tide of history

John Lloyd says the recent elections in eastern Europe have signalled the first stirrings of democracy

Elections all over eastern Europe this past half-year have not produced democracies, but at best democracies-in-the-making. Yet in every case except one, the result of the elections has not fundamentally deflected the political trajectory. Though very much was at stake politically, it could not, it seemed, be adequately captured or represented by elections. In a curious way they seemed almost premature.

The exception, which may illuminate the rest, is Hungary. The elections there in March produced a right-of-centre coalition government and a liberal-social-democratic main opposition party. The Prime Minister, Mr Jozsef Antall, seeks to give his party the style of a modern, European christian democrat group and is proving, so far, to be rather successful: but he is neither a hero nor a symbol – nor is anybody else.

A kind of party structure had been permitted – even encouraged – to grow up under Communist rule, especially after the resignation of Mr Janos Kadar two years ago. The media was partially freed from control. The Communist Party reformers who led it to a name and ideology change and away from power may not have foreseen their political demise, but they created many of the conditions which made it possible.

This groundwork meant that the elections were a contest between political forces which had had time to think through their positions rather than simply saying that the system had to change. The Democratic Forum was and is more nationalist, more instinctively statist than the Free Democrats: the two could sensibly debate the speed and scope of denationalisation, of economic reform, of land tenure. Attentive voters could discover competing beliefs. The parties had had the luxury to be *for* something.

This is not true anywhere else. In every other country, a differentiated politics is struggling for expression, still trapped either beneath the grand movements which achieved liberation and which cannot yet bear to release their grip on national politics (Poland, Czechoslovakia, Romania); or inhibited by the continuing, rickety rule of a Communist Party (Bulgaria, Yugoslavia); or with the most basic freedoms yet to be achieved (Albania).

Grand movements inevitably produce a politics of personality in which the political development of the country becomes terribly dependent on the character of the leading personality. In the case of Czechoslovakia, President Vaclav Havel is likely to use his prestige at home to further the cause of pluralism, yet his sheer pre-eminence exerts a kind of mesmerism on Czechoslovak politics. Journalists cannot really criticise him – if they do, their copy is not printed. Just before last month's elections, the news director of Slovak TV screened a programme which showed the President being booed by Slovak nationalists in Bratislava; he was fired.

The President has sufficiently deep wells of moral authority to see off such complaints. In Mr Marian Calfa, whom he endorsed as Prime Minister, he has an apparently able and reasonably well-liked man who, as a member of the previous Communist government has no base from which to oppose the President. The only challenger is Mr Vaclav Klaus, the Finance Minister, a caustic man whose neo-liberal radicalism is seen as too nationally divisive by the President and his advisers. They tried to shift him to the chairmanship of the central bank, failed, but may succeed in slowing his drive for reform.

Yet the sheer diversity and argumentativeness of Civic Forum, the liberation movement which punctured Communism and won the June elections, is likely to cause it to split and the splits to form the basis of new parties. Some activists in the movement argue that this would be no bad thing. "It will be impossible to conduct parliamentary business with a movement like Civic Forum," says Mr Jan Tauber, an adviser to Mr Klaus. "How can we know what policies will be supported? It makes rational government a nightmare."

In Poland, Mr Lech Walesa is currently a one-man nightmare for the country's government. Solidarity, the 10-year-old movement which took over power from the Communists a year ago, has stayed united but cannot much longer – it is being blasted apart by Mr Walesa, now a declared candidate for the Presidency.

Mr Walesa has purged or tried to purge his old comrades-turned-opponents (such as Mr Adam Michnik, editor of Gazeta Wyborcza); has drawn around him new advisers into a group called Centre Alliance; has demanded the sacking of former Communists still in positions; has demonstrated that he still enjoys the support of the Civic Committees, the movement's political wing; and has made clear that he means to use "his people" against "their government."

East Europe's round of elections have had one great success: they have registered political preferences

Earlier this month, Mr Walesa summoned Solidarity MPs to his Gdansk base. There, he played Lech the Impaler, skewering them over the coals of proletarian impatience. He told them: "one breath from the workers and peasants could blow all your papers into the wastepaper baskets ... this is where you started."

Mr Walesa's break with the Government led by Mr Tadeusz Mazowiecki has been sharp, impulsive and verbally violent. It could, however, be useful if his call for fresh elections soon were heeded, and stimulated the formation of coherent parties. The partial elections of last year gave a mandate to Solidarity, destroyed the Communists, but did not allow any other form of politics to emerge.

Romania's political culture is still deeply marked by the brutalisation it suffered under Mr Nicolae Ceausescu and his clan. Instead of replacing the Ceausescu nomenklatura throughout the system, the National Salvation Front has retained them largely untouched. President Ion Iliescu lauded the miners from the Jiu Valley who came to town in mid-June to terrorise real or imagined opponents of the new regime. The Liberal and Peasant and other parties, which constitute the opposition, are humiliated.

The prospects for change rest mainly on the judgment that reconstruction of the economy depends on the West. Mr Petre Roman, the Prime Minister, a western-educated technocrat who did admit some criticism of the miners' actions, may be able to use the economic lever to shift gradually towards democratic norms – to which, after all, the NSF is publicly pledged. Much, however, will depend on whether the mass of people – many of whom are grateful to the Front for their better quality of life since it came to power – will continue to support it. Will they demand that the pledges be kept?

Bulgaria's Communist Party took the initiative, last November, in instituting political reform – under pressure from the opposition and no longer certain of Soviet backing. But unlike the Poles and the Hungarians, it has managed to profit in the polls, winning a majority in the 400-seat assembly in June.

This is partly due to the speed with which they moved to elections; like the Romanians, they gave a fragmented opposition little time to organise, though unlike the Romanians, they have made no serious efforts to repress the other parties.

But communism, even revamped communism, may not be sustainable. Mr Petar Mladenov, the President, was forced to resign two weeks ago because of revelations, first denied, that he called for tanks to be used last December against demonstrators. Mr Andrei Lukanov, the urbane, reformist Prime Minister, is still trying to build a coalition to cope with needed economic reforms.

Yugoslavia is the most febrile of all: every month or two, one of its leaders predicts civil war, or disintegration of the federation, or both. Yet it is at least possible it will reform in peace.

The two most advanced Yugoslav republics, Croatia and Slovenia, elected right-wing governments in April and May (though Slovenia has a reformed Communist as President, Mr Milan Kucan). Both have said they will build a market economy and move close to Europe and that if the rest of Yugoslavia does not want to come along they will go without it. Bosnia and Macedonia, republics which have also produced effective pluralism, vote later this year, and are likely to follow the Croatian/Slovenian example. Mr Ante Markovic, the canny Prime Minister who has cut sharply Yugoslavia's 2,500 per cent annual inflation rate and seems to have become popular because of it, has said he will launch a new political party to compete against the Communists in all-Yugoslav elections scheduled for later this year. All this sounds good: but Serbia, the federation's largest republic, remains an obstacle – especially its President, Mr Slobodan Milosevic.

Mr Milosevic has lost some of the popularity he enjoyed a year or two ago, when he took the lead in getting back Serb rule over the southern province of Kosovo, populated mainly by Moslem Albanians. He was the target of a 30,000-strong demonstration last month, in favour of pluralism: he has now followed the well-worn path of changing the name of the League of Communists to Socialists, in advance of elections which he cannot prevent from being competitive.

Pessimists hold that east Europe's round of elections have "solved nothing." They have not indeed: nor do they anywhere. But they have had one great success: they have registered political preferences, and nobody (with the partial exception of Yugoslavia) has prophesied war after them. They have inserted the beginnings of a habit into countries where the habit was broken. And the waves they have caused have washed over the borders of Albania, some of whose people would rather stifle in western embassies than in the streets of Tirana. They have met the basic test of democracy: they worked badly, but better than anything else.

LOMBARD

Evidence of the polls

By Malcolm Rutherford

ACCORDING TO a recent book* on what the British people think, 60 per cent believe in Heaven and only 31 per cent believe in Hell. You might think that this is illogical, but on reflection you may well conclude that it is not an inaccurate expression of British public opinion. Probably it reflects a natural tendency to look on the bright side when it comes to such grave matters.

In any case, it is not the business of opinion polls to be logical. Their purpose is to provide a snapshot of opinion on a particular question at a particular time. The qualification is that the question has to be able to command a fairly straight answer. It is no use asking a question that invites those polled to waffle or write an essay. The refinement is to be able to differentiate between the respondents: young and old, male and female, and perhaps elite and non-elite.

Last weekend brought a perfect example of opinion polls in action. There were at least two quick polls in response to the Nicholas Ridley affair: one by Gallup for the Sunday Telegraph and the other by Mori for the Sunday Times.

Until the polls were taken, so far as one could gather from the anecdotal evidence, the common response to Mr Ridley's remarks about Germany in particular and Europe in general, was that he had gone over the top in his language, but probably reflected what a great many Britons think.

The evidence of the polls does not entirely bear that out. For example, the Gallup poll suggested that only 33 per cent agreed with Mr Ridley's statement that "the French are behaving like poodles to the Germans." As many as 60 per cent disagreed. Again, when asked about Mr Ridley's claim that Chancellor Kohl "will soon be trying to take over everything," 28 per cent agreed and 66 per cent dissented.

The Mori poll showed that 55 per cent would be worried "if a unified Germany became the dominant power in Europe," and 37 per cent (which seems to me quite a lot) said that they would not be worried. There were also some interesting breakdowns among categories of respondents. For instance, more Tory supporters seem to share Mr Ridley's fears about German power than Labour supporters. And, perhaps as one would expect, the young are less fearful than the older generation.

For the purpose of this article, I draw no further conclusion than that public opinion polls are useful and do not always tell you exactly what you expect to hear. They also have limitations. According to the Gallup poll, only 36 per cent of respondents correctly identified Mr Ridley as Secretary of State for Trade and Industry; 46 per cent said that they had no idea what Government job he held. It might therefore be of little help to ask what people think of (say) Karl Otto Pöhl, the President of the Bundesbank, or even Mr Robin Leigh Pemberton, the Governor of the Bank of England.

Yet there are also polls of elites. The Financial Times (through ICM Research) occasionally polls captains of industry. For some time now it has been clear that their views on Europe are quite different from those put by Mr Ridley. Support for early entry into the Exchange Rate Mechanism of the European Monetary System has long been running at around 80 per cent – well before it became a hot political issue. The business community wants to be full members of the club, and if the choice were between Europe and Mrs Thatcher, might well opt for Europe.

We have suspected that the views of such an elite might be out of line with the rest of the country. Now I am not so sure. The book referred to above has a graph of how British attitudes to Europe have changed over the past 20 years. In 1969 only 20 per cent of Britons regarded Europe as more important to Britain than America or the Commonwealth. Now the figure is around 50 per cent and America has dropped even further behind than the Commonwealth.

The case for systematic polling has never been stronger.

* *We British. By Eric Jacobs and Robert Worcester. Weidenfeld & Nicolson. £15.*

LETTERS

Flawed CGT scheme would create new distortions

From Mr Giles Keating.

Sir, John Muellbauer's development (Letters, July 11) of Anatole Kaletsky's proposed capital gains tax (CGT) on housing equity withdrawal ("Home truths on housing market," June 29) is a flawed scheme that would create a new set of distortions.

It would give first-time buyers an incentive to borrow as much as possible, since their initial loan forms the base for future tax-free borrowing, and it would penalise those who have borrowed little in the past. Surely these are the opposite of the intended effects? One could attempt to avoid such problems by imposing limits on the tax-free borrowing of first-time buyers, or by restricting indexation relief, but these features could cause yet further distortions.

More fundamentally, there is no reason to tax loans secured on housing rather than other borrowing.

Mr Muellbauer also mentions the straightforward CGT on housing, with roll-over relief, proposed most recently by Peter Spencer and Mervyn King. Since capital gains on homes, unlike those on portfolios of financial assets, cannot be partially realised annually, this tax would not level the playing-field between housing and financial assets, unless unused annual CGT exemptions could be rolled up to offset the ultimate tax liability on trading-down to a cheaper home.

Given the size of the annual exemption relative to average house prices, this would make the tax a complex irrelevance for the vast majority of home owners, its only effect being to boost the fees payable to professional advisers who would have to demonstrate that their clients had no CGT liability.

It is time to accept that housing has been a relatively innocent transmission mechanism for the effects of macroeconomic policy mistakes and, possibly, of over-ambitious lending by financial institutions. The solution lies not in the creation of new distortions in the housing market, but in prudent macroeconomic policies and in co-ordination among, and competition between, regulators and financial institutions in Europe and the rest of the world, to ensure an appropriately prudent attitude to lending behaviour.

Giles Keating,
Director – Economics,
Credit Suisse First Boston,
2a Great Titchfield Street, W1

From Ms Eileen Heslin.

Sir, John Muellbauer provides an interesting exercise in side-stepping the real issue.

It is unlikely that the Chancellor of the Exchequer, whose Leader adopts a read-my-lips stance, would be allowed to introduce new forms of taxation which would dilute any stimulus to present home ownership policies: policies that create an annual loss to the Exchequer of £7bn through mortgage income tax relief (Miras) – a subsidy exclusive to one tenure group that produces unaffordable housing for those most in need.

If it is the case that housing collateral and capital gains on house sales need to be curbed to control excessive borrowing, then surely priority should be given to providing alternative forms of tenure, other than home ownership.

The Organisation for Economic Co-operation and Development (OECD) has recently pointed to distortions in the UK housing market as being an "obstacle to greater regional mobility." Mr Muellbauer's proposal to lump together Retail Price Index and Capital Gains Tax would only add to this problem and leave the "significant tax distortion" (Miras) mentioned by the OECD intact.

Now that Sir Leon Brittan, the European Community's Commissioner for Financial Services, has tidied up his affairs with Rover and Renault, perhaps his attention should be directed towards the unfair practices carried out by the Government in its drive for home ownership, before Mrs Thatcher finds ways and means of adding 4m council tenants to the housing cauldron.

Eileen Heslin,
Secretary
London Borough of Hillingdon Council Tenants Federation,
179 Central Avenue,
Hayes, Middlesex

From Mr Peter Spencer.

Sir, John Muellbauer's letter is unfortunately marred by factual inaccuracy. Contrary to his suggestion, my proposal was for a CGT tax on owner-occupied housing explicitly designed to reduce equity withdrawal. It uses a formula identical to the one he proposes. I am also tempted to ask whether he seriously believes that the Japanese land price boom would have been less vigorous had CGT not been applicable to the resulting profits.

On a more substantive issue, Mr Muellbauer observes that house prices are now 25 per cent higher than they would be if the house price to earnings ratio had remained at its 1980 level. This clearly illustrates the scale of real capital gains that homeowners have made over the last decade. Yet it is debatable whether the consumer boom can be explained by the rise in asset values in the way he suggests. These gains only explain a part of the portfolio disequilibrium which seems to lie behind the buoyancy of consumer spending and borrowing. This is because the net value of the housing stock is currently so huge that even if house prices fall back to restore his 1980 price-earnings ratio, the overhang would still be enormous. The market value of personal sector housing investment would fall back from £964bn (the end-1988 CSO estimate) to £767bn, leaving net equity of £543bn after deducting housing loans of £224bn, nearly two year's worth of consumer spending.

A more comprehensive explanation of this situation is to be found in the tight credit controls and high inflation of the 1970s. As many of us were only too well aware at the time, this environment forced the homeowner to save harder to meet increasing mortgage repayments, even though net housing equity was rising as inflation rapidly eroded the real value of the mortgage. By the end of 1979, the average mortgage was worth just 17 per cent of the average property, well below the 25 per cent gearing ratio seen in the 1960s. The homeowner spent most of the 1980s correcting this imbalance by increasing borrowing and spending, and this ratio is now back in line with the 1960s average.

Mr Muellbauer and his colleagues may be right to think that financial liberalisation has increased the equilibrium gearing ratio, but if so, that remains a problem for the 1990s rather than an explanation of the 1980s.

Peter Spencer,
Shearson Lehman Hutton Securities,
1 Broadgate, EC2

The way to end sniping between investment trusts and unit trusts

From Mr Adrian Thompson.

Sir, The view of the official from the Association of Investment Trust Companies ("Legal & General offers to buy shares in Globe Investment," July 10) that L&G, by making its offer for Globe equity, is "using its protected status to rape our industry" once again brings to prominence the difference between investment trusts and unit trusts.

The price of investment trusts is related only to the force of supply and demand in the marketplace, whereas the value of a unit trust is directly related to the value of its underlying holding.

In view of the increasingly competitive nature of the investment world – the 1992 for collective investment schemes actually happened in October 1989 – it would be more constructive for all concerned if the AITC, instead of complaining about the "rape" of the industry, did something more positive to promote itself within the wider market.

This could be done by campaigning for the Companies Act to be changed to allow investment trusts to be converted to open-ended investment companies on the continental Sicav model valued using a single price net asset valuation system (which must inevitably come to the unit trust industry as well).

Once this change has been made our two industries can stop sniping at each other and go out into Europe on equal terms to our continental rivals and bring the benefit of our skills and expertise to the vast European market, the majority of which has yet to experience the competition that is taken for granted by the industry in Britain.

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FINANCIAL TIMES
Monday July 16 1990

Crisis threatens to swamp Indian coalition

Resignations over nepotism steer government towards collapse, writes K.K. Sharma

THE leading party in India's National Front coalition Government battled at the weekend to avoid collapse after 13 ministers resigned in protest over nepotism on the part of the Deupty Prime Minister.

The political crisis deepened when Mr V.P. Singh, the Prime Minister, resigned as head of Janata Dal, the main party in the coalition, although he agreed yesterday to stay on after an emergency meeting of the National Front presidium.

This does not diminish, however, the seriousness of the crisis which was sparked off last week by Mr Devi Lal, the Deputy Prime Minister, when he arranged for Mr Om Prakash Chautala, his eldest son, to be elected as Chief Minister in the northern state of Haryana.

Hectic efforts are being made by Mr S.R. Bommai, the Janata Dal president, and senior party leaders who have rushed to New Delhi from all parts of the country amid widespread speculation that the party is on the verge of breaking up.

The crisis is undoubtedly welcomed by Mr Rajiv Gandhi, the former prime minister, who will be hoping that segments of Janata Dal will defect to his Congress Party.

The other possibility is that another general election will be held, although many feel that India is not ready for another exercise so soon after last November's poll.

The crisis erupted when the 13 ministers – including three of cabinet rank – resigned over Mr Chautala's election. A controversial figure, he was forced to quit the Chief Ministership seven weeks ago after widespread violence and allegations of vote rigging in a by-election which he contested. The results of the by-election have twice been annulled.


Demonstrators from Harvana march through the streets of Delhi in protest at the reinstatement of Om Prakash Chautala as Chief Minister of the state

Mr Devi Lal last week reinstated his son apparently believing that he had the agreement of the Prime Minister. The move stunned the Janata Dal and brought Mr Singh under strong attack. Mr Singh has since denied that he agreed to Mr Chautala's reinstatement, but he has remained silent over allegations of a deal.

The 13 ministers who have resigned include Mr I.K. Gujral, the Minister of External Affairs, Mr Arun Nehru, Minister for Commerce and Tourism, and Mr Arif Mohammed Khan, Civil Aviation Minister, all heavyweights in the Janata Dal.

They wrote to Mr Singh saying it would be difficult for them to defend Mr Chautala's reinstatement since it violated the party's commitment to the "value-based" politics lacking in Mr Gandhi's Government.

The main stumbling block to resolving the crisis is Mr Devi Lal's refusal to agree to Mr Chautala's resignation. He claims that his son was democratically elected by the Haryana Janata legislature party. In turn, Mr Devi Lal has demanded disciplinary action against the ministers who have resigned.

Ever since Mr Singh took office after the last general election, cynics have been betting on how long India's fragile, faction-ridden ruling party, and the Government it leads, would last.

Mr Devi Lal, however, does not really want to displace Mr Singh, though the brash burly farmer, who sees himself as the patriach of the party, has been the main cause of the crises in the Janata Dal.

The alleged deal between the two politicians is claimed to have been struck when Mr Singh, sensing that Mr Devi Lal's powerful personality and base among north Indian farmers could not be ignored, invited him to dinner last week.

What transpired at the tête-a-tête will probably never be known but an agreement aiming at accommodating Mr Devi Lal's aspirations for his son was apparently made.

Mr Singh's critics argue that he should have at least waited for the outcome of an inquiry into the violence at the by-election – for the constituency of Meham – before hastily compromising with Mr Devi Lal.

There is little doubt that Mr Singh agreed that Mr Chautala should be given some kind of recognition by the party, probably intending that a minor post, such as a general secretaryship, should be created for him.

Mr Devi Lal, on the other hand, took Mr Singh's gesture to mean that Mr Chautala had been forgiven, arguing that if his son was considered good enough to be a general secretary in the Janata Dal, he could not be denied political rehabilitation in Haryana.

Mr Singh, characteristically, has sought to take refuge by resigning – an action he has taken in previous offices when he was seeking a way out of trouble. Never known for decisiveness, he apparently repeated the move in the hope that he would be persuaded to continue in office. Clearly, however, his position has become shakier.

Violence in Hyderabad, Page 2

THE LEX COLUMN

A wind of change on the farm

When Tate & Lyle backed out of bidding for Berisford earlier this month it kept quiet about one of its reasons: the fear that the tariff wall round the European Community's sugar production might one day be demolished, thus severely damaging the value of British Sugar. Last week's meeting of the Group of Seven major industrialised countries in Houston will have confirmed this kind of thinking. The whole vexed issue of agricultural subsidies, which the Organisation for Economic Co-operation and Development reckons cost the world $70bn a year in lost efficiency, has been taken out of the hands of the agricultural ministers by the heads of state. The Common Agricultural Policy, that sacred totem of European unity, is finally under fire.

Radical change cannot be taken for granted; with the CAP and its competing regimes around the world, nothing is ever that simple. But the odds are now on substantial modification of the system within the next five years. For the industries which depend on agriculture – food processing, agrochemicals, farm machinery – the chief question is what form the change will take.

The radical option would be for farmers to be paid only what their produce is worth. In that case, there is no saying what the shape of European agriculture would be 10 years from now. Alternatively, farmers might still be subsidised on price but not on over-production. Even then, it would be hard to envisage agricultural output's being sustained at historic levels.

The effects

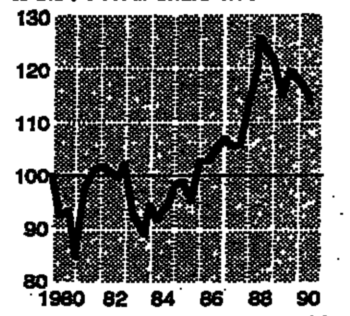
In calculating the effect, it helps to begin with the most basic of the commodities, grain. In a free market, grain prices would certainly fall, given the comparative advantage enjoyed by the prairie producers of North America or a reformed eastern Europe. This would be of clear advantage to bakers such as RHM or United Biscuits, at least to the extent that they could hold their own product prices.

But grain output might not fall in proportion. Some acreage would be switched from worse-hit crops such as sugar or oilseeds; and since grain would be cheaper than before it would be more widely used in animal feed. In turn, cheaper feed would mean increased output of pigs and poultry, which would be good news for UK producers such as Unigate or Hillsdown.

The clear loser would be the dairy business. In butter and cheese, the natural advantage has always lain with New Zealand and Australia; in beef, with Australia and Argentina. The quoted UK dairy producers have largely kept clear of butter and cheese, leaving it to the Milk Marketing Board and the Irish producers. In beef, Hillsdown would suffer as Europe's biggest slaughterer. So would the Irish beef baron Mr Larry Goodman, whose ambition to own British Sugar is in this context not easy to understand.

Food Manufacturing

FT-Actuaries index relative to the FT-A All-Share index



The trouble with sugar is that cane is inherently cheaper than beet, largely because of cheap land and labour in the producing countries of the Third World. It is plainly open to Europe's beet processors to switch; but they are up against Tate & Lyle, which is close to being Europe's monopoly cane refiner. Either way, the winners would be the African, Caribbean and Pacific group of countries, which currently suffer from the dumping of excess European sugar on world markets.

They would suffer an offsetting loss, as it happens, on the sale of bananas, which for weird historical reasons are also covered by EC tariffs. According to a World Bank study published today, a free market in bananas would cost protected exporters such as Jamaica and Martinique $209m a year. It would also put $386m into the pockets of European consumers through a 24 per cent drop in export prices. To the extent that bananas are a price-sensitive commodity, this is plainly good news for banana merchants such as Geest and Polly Peck.

Added value

In almost every case, lower farm prices would help the value-added food processors such as Unilever, Nestlé and Cadbury Schweppes. But there is one possible hitch. At present, these manufacturers receive subsidies from the EC whenever they export their finished goods outside the Community, to compensate them for the higher price of their raw materials. These subsidies are highly unpopular with the EC's trading partners. Should the negotiating get tough, the risk is that they could be cut before farm prices are.

There is one group for which the removal of farm subsidies would be unalloyed bad news: the chemical producers. The damage would be most obvious in fertilisers, which are not readily exportable. Imperial Chemical Industries, which has been struggling to break even in fertilisers for several years, might welcome the opportunity to get out. The big loser would be Norway's biggest company, Norsk Hydro, which has made dominance of European fertilisers a central plank in its strategy.

In the much larger business of pesticides and herbicides, the position is less clear-cut. Being less bulky and higher in added value, these chemicals can in theory follow farm production wherever it goes. But it is on these chemicals that a good proportion of the world's farm subsidies are spent. Cut the farmer's income and he can scarcely maintain his consumption.

Major task

The difficulties posed by radical reform of the CAP should not be underplayed. It could only happen in a multilateral context; not only between the EC, the US and Japan, but between the EC's own members. In addition, the EC's 9m farmers – some 20 per cent of them aged 65 or more – have to be supported somehow. Whether this were done through a system of deficiency payments over and above the market price, or by a more direct subvention, the previously imprecise cost to the Community would be cruelly exposed.

But in one important respect, the CAP has had its day. As recently as the late 1980s, it was possible to argue that it was the only practical expression of the European ideal. With the advent of the single market and the prospect of monetary union, more fundamental unifying structures are on their way. In addition, the whole system was always cursed with bureaucratic complexities: part social security network, part regional planning structure, never commercially focused and always the product of chauvinistic compromise. Not the least argument against the continuation of the CAP is that it has given the European Community a bad name.

US telecom authorities target phone cartel

By Hugo Dixon in London

US telecommunications authorities last week criticised the international telephone cartel which leads to consumers paying far in excess of costs for making international calls.

In a move designed to halve prices within two to three years, the Federal Communications Commission (FCC) directed its fire at the complex accounting rates system which determines how revenue from international calls is shared between the world's telephone companies.

Although the FCC's action is the most determined attempt to date to tackle the problem of excessive international call prices, parallel investigations are under way at the European Commission and the UK's Office of Telecommunications.

An accounting rate is the amount US phone companies pay foreign counterparts for delivering calls. These rates are about twice as high as they should be, the commission believes, and constitute a strong deterrent to US telephone companies cutting their prices.

The FCC's strategy is to force down accounting rates and to rely on competition between the leading US companies – American Telephone and Telegraph, MCI Communications and US Sprint – to pass on benefits to consumers. The telephone companies have welcomed the commission's move.

The FCC believes telephone companies will have a strong incentive to negotiate lower accounting rates if it puts its weight behind such a movement and cuts red tape.

It is therefore proposing that US telephone companies be permitted to negotiate lower rates without having to obtain its approval and that more complex changes in rates be allowed to proceed, provided they result in lower prices for consumers.

The commission's confidence is based on the fact that accounting rates are the largest element in the telephone companies' costs, with 75 per cent of what they collect from US consumers being passed on to foreign companies.

It also believes that lower prices will stimulate traffic which, in turn, will cut costs further as a result of economies of scale.

On the other hand, it is possible the telephone companies will not have a strong incentive to negotiate lower rates if they are expected to pass on all the benefits to consumers.

The market is highly profitable, with most earnings being generated from the accounting rate payments received for handling incoming calls.

If accounting rates and prices were to fall simultaneously, the telephone companies' profit margins from international traffic would shrink.

It is also possible that foreign telephone companies will continue to resist lower accounting rates as they are the main beneficiaries of the system, receiving about $2.5bn a year in net payments from the US.

The FCC has therefore held out the possibility that it may impose lower accounting rates unilaterally.

It would consider taking such action if it felt foreign companies were trying to manipulate the system to their advantage.

The commission, though, prefers to move as far as possible through negotiation, believing there are good prospects for agreement with countries such as Australia, Sweden and the UK.

Lower prices between the US and these countries would then put pressure on others to cut accounting rates and prices to avoid the risk of multinational business customers moving to lower cost destinations.

The big stick would be reserved for countries which still refused to move.

Signet to be sold to US or French contenders

By David Barchard in London

SIGNET, the UK's largest credit card processing operation, is set to pass into US or French hands following the drawing-up of a shortlist of two buyers by the banks which own it.

The operation, based in Southend in southeast England, will be sold either to First Data Resources of the US, the plastic card processing arm of the American Express Corporation, or Sligos, a leading French credit card processor whose main shareholder is Credit Lyonnais.

The banks are looking for a price of at least £150m ($268.5m) for the operation, which they claim is the largest and most modern credit card processor in Europe.

Signet, which has 3,000 employees, was known until last year as Access, the Joint Credit Card Company. It was put up for placed on sale earlier this year by its owners, National Westminster, Midland, Lloyds, and Royal Bank of Scotland.

The first three banks each own a 30 per cent share while RBS has 10 per cent. The sale covers only the processing operation and is unconnected with the Access MasterCard credit card brand.

The decision to sell Signet emerged after months of pressure from Lloyds on the other banks. It follows a shake-up in the credit card market over the past two years which has left the banks in the consortium in direct competition with each other.

By selling their stakes in the joint venture, the banks will also strengthen their capital bases as they did with the sale of Yorkshire Bank for just under £1bn earlier this year.

Negotiations are under way to establish a price for Signet. The banks in the consortium will guarantee to keep most of their credit card business with it for several years.

Pricing the operation is proving difficult as until last year it did not maintain separate accounts but was financed directly by its owners.

Several other strong contenders to buy it have now been ruled out, including Electronic Data Systems of Dallas, one of the world's foremost processors. The four banks appear to have suspected that EDS, which is owned by General Motors, may have the long-term aim of entering the UK card issuing market and competing directly against them.

ICI boosts spending on chemical dumping

By Peter Marsh in London

IMPERIAL Chemical Industries, Britain's biggest manufacturer, is to increase by up to seven times its internal charges for dumping chemicals waste from the company's biggest manufacturing site, in an effort to cut pollution.

The new charges are a sign of the moves many large British industrial companies may need to make as UK laws on pollution control move closer to those in other European countries such as the Netherlands and West Germany.

The move is designed to put pressure on ICI managers to reduce waste from production operations. It comes after criticism of ICI by environmental groups for failing to introduce rigorous enough anti-pollution measures.

The policy change applies to ICI's production site on Teesside in the north east of England, Britain's biggest chemicals complex.

ICI places most of its the chemicals waste from the complex in two licensed landfill sites it owns on Teesside. The sites take about 40,000 tonnes a year of this waste – mainly residues from chemicals production operations.

The company currently charges its production divisions £15-£20 ($27-$36) a tonne for this process. The money covers the relatively low costs of transport and disposal.

ICI intends increasing the charges to as much as £150 a tonne by next year. The extra cash raised will be transferred to production divisions to pay for new manufacturing processes that should reduce overall waste volumes.

Mr Peter Williams, environment manager at ICI's Teesside site, said the new charging structure should give managers an incentive to invest in low-waste processes.

"We hope to sharpen minds," he said.

The new charges will vary according to the type of refuse being deposited. They will bring ICI's internal waste-disposal fees in the UK closer to those which the company has to pay in the Netherlands and West Germany, which have some of Europe's toughest environmental laws.

In these countries, where landfill sites are generally much more closely regulated than in the UK, ICI is used to paying £130-£170 a tonne to put chemicals waste into land deposits run by government or private-sector groups.

In the Netherlands and West Germany, suitable landfill sites are generally further from ICI's main manufacturing operations, which increases transport costs. Also, regulatory authorities insist on extremely tight monitoring procedures, another factor which leads to greater expense.

One reason for the low cost of dumping on ICI's UK sites is that they are built on natural clay deposits, which stop chemicals waste leaching out into water streams. Waste sites in continental Europe often lack a clay deposit and so require artificial plastic liners.

Gorbachev and Kohl pact

Continued from Page 1

package that is under negotiation."

The total package now involves rapid progress to agreement in the conventional arms reduction talks in Vienna, to clear the way for a summit meeting of leaders of the 35 participating nations by November. That will include a binding declaration by Germany on the strength of the future German armed forces.

There will also be a joint declaration by the two military alliances – Nato and the Warsaw Pact – which was discussed by Mr Manfred Wörner, the Nato Secretary-General, with Mr Gorbachev and Mr Eduard Shevardnadze, the Soviet Foreign Minister, at an earlier round of talks on Saturday.

The two sides in the broader east-west negotiations also need to agree on a firm basis for the future pan-European institutions to be formed under the umbrella of the CSCE (Conference on Security and Co-operation in Europe).

Finally the package to be put together by the end of the year would include agreement on some form of multilateral aid scheme.

UK-German ties strained

Continued from Page 1

"Are we asking the right questions? Are we getting the truth?" he asked.

Mr von Wechmar, who is now a Free Democrat member of the European parliament, added: "I am not surprised that a group of people (like Mr Ridley) should have views like this. What is surprising is that it took the Prime Minister so long to accept the resignation of Mr Ridley."

Mr Karl-Günther von Hase, another former ambassador to the UK and now chairman of the German-English Society, said yesterday that around one third of the British population appeared, like Mr Ridley, to focus on Germany a general irritation about Europe.

Britain faced the danger of being pushed to the geographical edge of Europe by German reunification, Mr von Hase said. But Britain needed to participate in efforts to create a genuinely "European Germany" through European integration. Otherwise it risks facing an isolated Germany. "West Germany has no other choice but to continue to show patience in developing friendly and understanding relations with Britain," he said.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	26	79	Berlin	F	21	70	Caracas	–	–	–	Faro	S	23	75	Islamabad	C	35	95
Algiers	T	27	81	Biarritz	F	22	72	Casablanca	F	24	75	Florence	S	30	86	Istanbul	S	27	82
Amsterdam	S	23	75	Bombay	C	29	84	Chicago	C	17	63	Frankfurt	S	23	75	Jakarta	R	30	86
Athens	F	29	84	Bordeaux	C	21	70	Cologne	S	23	75	Geneva	S	26	79	Jersey	S	22	72
Bahrain	S	37	100	Boulogne	–	–	–	Copenhagen	S	20	68	Gibraltar	S	27	81	Johannesburg	S	15	59
Bangkok	F	31	88	Brussels	S	25	77	Corfu	S	31	88	Glasgow	R	17	63	Lima	–	–	–
Barcelona	F	26	79	Budapest	S	22	73	Dallas	S	17	64	Helsinki	R	12	55	Lisbon	S	25	77
Beirut	–	–	–	Buenos Aires	C	17	64	Dublin	R	17	63	Hong Kong	C	30	86	London	S	26	79
Belfast	R	17	63	Cairo	S	32	91	Dubrovnik	S	29	84	Innsbruck	S	25	77	Los Angeles	S	21	70
Belgrade	S	23	75	Cape Town	C	12	55	Edinburgh	C	17	63	Inverness	C	17	64	Luxembourg	S	23	75

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	22	73	Milan	S	27	81	Nicosia	S	27	82	Salzburg	S	22	72	Tenerife	S	27	81
Madrid	S	30	86	Montreal	C	20	68	Oporto	S	21	70	San Francisco	F	13	57	Tokyo	F	30	86
Majorca	F	29	84	Moscow	C	15	59	Oslo	S	22	72	Seoul	C	27	81	Toronto	R	20	68
Malaga	S	32	90	Munich	S	22	72	Paris	S	29	84	Singapore	F	30	86	Tunis	S	32	91
Malta	S	30	86	Nairobi	C	23	75	Peking	C	26	79	Stockholm	F	17	64	Valencia	S	26	79
Manchester	S	23	75	Naples	S	27	81	Prague	S	22	73	Strasbourg	S	26	79	Venice	S	26	79
Manila	R	32	91	Nassau	C	31	89	Reykjavik	Dr	12	55	Sydney	S	17	64	Vienna	S	21	70
Melbourne	C	12	54	New Delhi	F	31	88	Rhodes	S	27	82	Taipei	F	36	97	Warsaw	C	17	63
Mexico City	–	–	–	New York	Fg	20	68	Rio de Janeiro	–	–	–	Tangier	F	22	73	Washington	C	23	75
Miami	F	27	81	Nice	S	25	77	Rome	S	27	81	Tel Aviv	S	30	86	Zurich	S	23	75

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 16 1990

INSIDE

Tuffier ordered to suspend business

It was a weekend of emergency meetings at the Paris Stock Exchange with market authorities locked in discussions with shareholders of the stricken French securities firm Tuffier et Associe's. At stake is the reputation of the market itself following the decision of the French stock market watchdog, the Conseil des Bourse de Valeurs, to order Tuffier, one of France's largest independent stockbroking firms, to suspend all operations for a maximum of three months. Page 19

Petrochemical formula

Mitsui Petrochemical Industries of Japan, and Samsung, South Korea's largest industrial group, are planning a Y20bn ($136m) joint venture to produce polypropylene and high-density polyethylene in South Korea. The move comes amid intensifying competition among chemicals producers in both countries and fears that planned capacity increases will provoke fierce international price wars by the mid-1990s. Page 19

Alcan earnings fall 67%

Canada's Alcan Aluminium has suffered a big drop in second-quarter earnings. Net income after payment of preferred share dividends was US$78m down from US$239m in April-June 1989. The biggest fall in second-quarter earnings occurred in Latin America, as a result of economic turmoil in Brazil, where Alcan is the only local producer of aluminium sheet for beverage cans. Page 19

Courtaulds sells Spanish acrylics business

Courtaulds, the UK chemicals and materials group, is to sell its Spanish acrylics activities for an undisclosed amount to a new Anglo-Italian joint venture, in which it will have a minority share. The new venture will be controlled by Enimont, the biggest chemical concern in Italy and Europe's largest maker of acrylic fibre – a part of the European chemicals industry which has suffered a steep downturn in the past few years. Page 21

Market Statistics

Companies in this section

Fair wind for Anglo-German partnership

Morgan Grenfell is soon to take over Deutsche Bank's M&A business in Germany, writes **Katharine Campbell**

The blending of two almost entirely different cultures – the integration of the London merchant bank Morgan Grenfell into its new parent, Germany's Deutsche Bank – has reached a most delicate moment.

This month, Morgan Grenfell takes over responsibility for its parent's mergers and acquisition business within Germany itself. A new entity, DB Morgan Grenfell, absorbs the small DB Mergers & Acquisitions unit set up by Deutsche in 1984. (Hitherto, Morgan Grenfell did very little business within Germany.)

Morgan Grenfell, an aggressive financial adviser in the London or New York style, is entwining itself with an institution that embodies the powerful financial shield that protects corporate Germany.

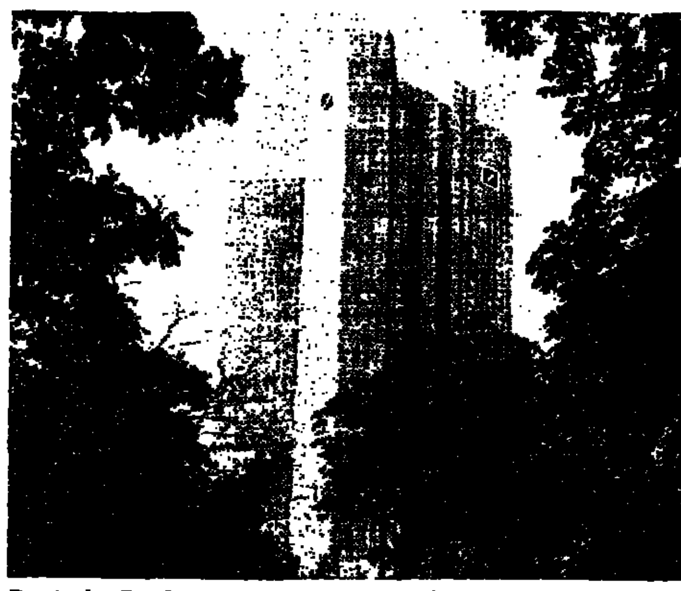
"Deutsche knows that the best way to kill off the operation is to make us like a German institution," says Mr John McLaren, a soft spoken ex-diplomat who is the London director with responsibility for DB Morgan Grenfell in Germany. The comment is greeted with earnest nods by his new colleague Mr Rolf Betz, who has moved from the new issue department in Deutsche to head DB Morgan Grenfell in Germany.

For the moment, the two banks are warily sniffing each other out. Mr McLaren waits patiently in the halls of Deutsche's Frankfurt headquarters for a visitor's pass.

Some of his new colleagues complain that the fact Morgan Grenfell has assumed sole charge of M&A is "terribly English" – in this context at least, definitely not a compliment. But, whatever the inevitable teething troubles, the ambitions of the combined operation are not in doubt. "I am quite confident that we will be the leading investment bank dealing in German-related matters," says Mr McLaren.

The competition within Germany is not formidable. DB Mergers & Acquisitions claimed to be the leader in an activity in which German banks are traditionally weak. Last year, it reported fee income of DM 22m (£7.42m) from 12 deals, mostly involving the small and medium-sized companies that make up what German business people call the *Mittelstand*.

Mr Bodo Fuchs, who built up the operation and left at the end of June, says his room for manoeuvre had already been inhibited substantially by attempts to bring the operation under the wing of group investment banking last year.



Deutsche Bank will gain an international M&A network

A lawyer familiar with the operation noted that there had always been internal political difficulties: "Fuchs' main competition was from the regional branches of Deutsche Bank, jealous of their own *Mittelstand* clientèle."

Morgan Grenfell's most powerful contribution – and the one where there will be least risk of problems with other branches of the parent – will be in cross-border deals. DB Mergers & Acquisitions had an operation in New York, but communications were poor.

Morgan Grenfell reckons it has that international clout. Moreover, German companies seeking new partners will get a better price if they are touted abroad, even if the eventual owner ends up being a German firm, it argues. Being able to boast two "home" markets will be a big competitive strength, the two banks believe.

Morgan Grenfell's role as adviser to Philipp Holzmann – the West German construction company which bought 14.05 per cent of Tilbury, the UK building group, in mid-June – was one product of the new alliance.

Mr McLaren believes that cross-border business offers Morgan Grenfell a possible springboard to German companies' domestic business. "Siemens does not need us to introduce them to Nixdorf," he says. "But if a company sees the merits of using our services overseas, then they may use us for the next domestic transaction."

Morgan Grenfell will be treading gingerly within the cosy world of corporate Germany. "We must be extremely careful not to be seen in a predatory role by our clients," says Mr McLaren. German attitudes towards corporate acquisitions are changing, however. When a company like Siemens is engaged overseas in a very public hostile bid, as in the long-running and eventually successful joint bid with GEC for Plessey, it becomes difficult to condone different rules at home.

Deutsche Bank itself, once a fervent proponent of restrictions on shareholder voting rights to limit the threat of takeovers, signalled earlier this year it is aware such a limit is a "foreign body" in a market economy.

(The bank hotly denies its shift in attitude is connected with the Morgan Grenfell acquisition. And it has yet to drop its own restriction – which limits a shareholder to a maximum of 5 per cent of the votes, no matter how large the stake.)

With all these changes in the air, Morgan Grenfell believes its arrival in Germany is well-timed. The pace of M&A activity, slowing in the US, will be spurred in Europe by the single market and developments in the East.

The timing provides a fair wind for the new relationship. "It may still not work," says Mr McLaren, "but it has a lot going for it."

The manic-depressive US expansion

By Anthony Harris in Washington

The US expansion is beginning to resemble one of those beloved opera stars whose farewell appearances stretch out into an endless series. The voice sounds a bit quavery, the body is beginning to look distinctly flabby, and everyone feels that the end cannot be long delayed; but still the song lingers on.

The voice is at present that of the motor industry. Its renewed expansion is giving the whole manufacturing recovery a second wind, after most analysts had written it off. This was put down by those who study the industry (obediently echoed by your columnist) as normal end-of-labour-contract stockbuilding; but now sales have apparently caught up with output. The sales recovery has defied all the forecasts, as well as such usually reliable pointers as survey of consumer confidence, which has weakened sharply.

The only rational explanation is that buyers fear that the great age of customer incentives – such offers as $1,500 (£831) in cash to buy a new-model medium-sized car – may be coming to an end. In other words, car-buying is driven partly by fears of future inflation – just as the current slump in house sales is partly due to the hope that prices will fall further.

Now this preoccupation with future prices is precisely the kind of behaviour which Mr Alan Greenspan, the Fed chairman, has set himself to stop. His definition of his zero-inflation target is a situation in which people are concerned only with current, not future prices. If he is not puzzled by the strength of car sales, he ought to be concerned about the last producer price figures, which showed a strong resurgence of prices apart from the food and energy sectors, which are largely beyond the Fed's influence.

Yet it is at this moment that he has felt himself compelled to ease monetary policy, and to sound quite a fanfare about it.

His elaborate statements to the Senate Banking Committee last week were designed to reassure two consituencies: the inflation-worriers in the bond market, and those who fear a generalised financial collapse. The Fed is easing, he explained, to offset a widespread reluctance by bankers to lend. The expected result is not renewed credit growth, but cheaper credit for sound borrowers. This could even reduce price pressure (as he did not explain), since much of the pressure on profit margins comes from the cost of debt service. It will also, clearly, reduce the carrying cost of unsold houses and empty office buildings, and give some breathing space to over-leveraged corporations.

In the past, this move would simply have been greeted by ordinary citizens as a promise of lower mortgage payments; but by now everybody knows about bankruptcy. When the shops your mother used suddenly close their doors, your airline is up for sale with no buyers, your bank is taken over and your savings bank closed, you know the meaning of financial fragility. And you worry.

The depth of that worry is shown in a recent survey by the International Association for Financial Planning. This shows that 86 per cent of consumers expect higher inflation, and 69 per cent fear a deep recession. The middle classes do not know how much longer they can make ends meet, and no less than 91 per cent of the women questioned doubted that ordinary families will be able to afford college for their children by the 21st century.

If this is indeed representative of consumers – and other surveys show weak confidence, if not such exaggerated gloom – then their current behaviour looks like manic depression, or pure evasion: eat, drink and be merry.

The Administration shows something of the same split mind. There is real horror about the financial abyss, but something like complacency about the real economy, as if the one did not at all depend on the other. In the end, it does seem likely that consumers are showing a sounder understanding of economics than those in authority: a debt binge on the scale of the Reagan-Bush era, which has tripled both public and corporate debt, can only be resolved through individual bankruptcies or through the generalised bankruptcy we call inflation. The sheer scale of the saving and loan collapse is at last becoming widely understood.

Politicians and central bankers who do not address these concerns are indeed evasive. But the time scales are different. The consumers in the survey were worrying about what sort of a future they would be able to give their children; politicians tend to wonder simply whether the roof will hold up until after the next election.

In this respect, complacency has been encouraged by the long roll of warning of disasters which failed to happen.

On this time scale, the US probably can muddle through, and even the record high on Wall Street (in nominal, not in real terms) is defensible.

The current depression in the North East, and the impending depression in the construction industry, are the sort of regional and sectoral problems the US has faced and managed throughout the expansion.

In terms of competitiveness, fiscal discipline and outdated infrastructure the US faces problems on the same sort of scale that Britain faced in the mid-1960s, and probably faces only continued relative decline. But this seemingly tolerable prospect also explains the gloom of consumers.

The national psyche is obsessed with winning, and Americans no longer feel they hold a winning hand. They first suffered this conviction under President Carter; then Mr Reagan gave them a holiday in dreamland. Now they know it was all an illusion. American finance was crooked, and American technology can no longer manage a routine space launch.

These sobering thoughts may well produce helpful changes in behaviour – prudence among bankers, thrift among ordinary citizens, and economy among politicians; but if it gets out of hand; American inferiority-feelings could produce some very unhelpful policies.

Protectionism in trade and capital, and a withdrawal from a world increasingly dominated by former enemies, look real possibilities.

This is not a reproach: no-one from a country in which Mr Nicholas Ridley speaks for so many can afford it. I hope it is not a forecast.

Economics Notebook

Steering clear of wrinkled noses

THERE is no shortage of precedents for Chancellor Helmut Kohl's efforts to help the Soviet economy through German financial support.

As Mr Kohl talked with Mr Mikhail Gorbachev in the Kremlin yesterday, the Chancellor may have reflected that his predecessor, Mr Helmut Schmidt, once, in the mid-1970s, suggested that the Bundesbank deposit part of its foreign exchange reserves with the Soviet central bank. Mr Schmidt's suggestion – which never got off the ground – was an effort to provide "economic incentives for the Soviet leadership," he wrote in his memoirs. The episode is remembered above all by Mr Helmut Schlesinger, the Bundesbank's current vice-president. Mr Schmidt correctly recorded that, "People may wrinkle their conservative noses about such ideas."

Mr Kohl, a great deal more pragmatic about such matters than the former Chancellor, took to Moscow an already agreed government guarantee for a DM5bn (£1.69bn) bank credit for the Soviet Union. But otherwise he had no financial surprises up his sleeve. His message is that Germany is more than willing to open its purse-strings. But he repeats that aid for Moscow must represent no more than "help towards self-help" to encourage genuine Soviet reforms.

West Germany's position as a major exporter of much-needed capital is clearly Bonn's main asset in the drive to win Moscow's backing for a united Germany anchored in Nato. Mr Kohl's Government is keen to convince the Russians that a reunited German nation will be an incomparably more efficient and useful economic partner than either the Federal Republic or the German Democratic Republic on their own.

An analyis of Germany's financial power certainly underlines the advantages for the Soviet leadership of good relations with the nascent Germany. Not only Mr Kohl's liking for country air, but also the multi-billion D-Mark balance sheet he represents, influenced Mr Gorbachev's decision to invite the German leader yesterday afternoon to visit his home region in the Caucasus.

The fact that Mr George Bush has not yet been awarded this honour may have something to do with the slippage in the US's net debtor position last year to a staggering $664bn. By contrast, West Germany now has a net foreign asset position of more than DM500bn.

Capital, of course, gravitates to the areas where returns, security and prospects are the best. It is no surprise that, according to the Bundesbank's latest figures (recording the position in June 1989), only DM34bn of West Germany's net foreign assets of DM427bn were placed with Communist countries. This made up only 8 per cent of foreign assets.

During the 1970s, Mr Schmidt used to complain that the Soviet Union's exports to the Federal Republic were less than 3 per cent of West Germany's total imports. Underlining just how much ground Mr Gorbachev has to make up, last year the figure was just 1.7 per cent.

West Germany last year carried out 4.7 per cent of its total foreign trade with the (former) Communist bloc, against 53 per cent with the EC. It exported three times as much to Austria as to the Soviet Union. Assuming the Soviet Union moves categorically to liberalise its economic system (and manages to avoid sparking a counter-revolution in the process), Moscow is likely to become as much a target for German loans and investment as the other newly-reformist capitals of formerly communist Europe. But it will be a long process. Even in East Germany, where German monetary union has now obviated the currency risk, and where the political risk will soon be taken care of by full unity, German investors are treading with great caution.

* * *

ONE OF the consequences of German reunification will be the need for an all-German parliament to amend the 1957 law governing the Bundesbank. No-one expects that parliament will tamper with the articles enshrining the Bundesbank's independence from government in monetary policy. The changes will concern matters which appear only on the surface to be relatively minor – concerning the federal nature of the Bundesbank's policy-making council. At present, this is 18-strong – made up of the seven directorate members and the heads of the regional central banks from West Germany's 11 Länder.

Accession of East Germany and its five soon-to-be-reformed Länder would increase the Länder representatives to 16. Since the Bundesbank is empowered to have a maximum of 10 directors, a pro-rata two-man increase in the directorate could expand the council to a total of 25 members. Karl Otto Pöhl, the president, thinks this would be impossibly unwieldy. Mr Pöhl is considering following the US Federal Reserve by adopting a rotating system for the presence of Land central bank presidents.

Such a reorganisation of the body at the centre of German monetary policy gives Mr Pohl another potential political headache in addition to the purely monetary challenges of German unity.

David Marsh

THIS WEEK

A SMORGASBORD of UK statistics this week should focus market attention more on the economy and less on the published views of Cabinet ministers and former economic advisers to the Prime Minister.

Sterling will continue in daily focus. Last week, it threatened to break the key DM3 barrier, but was defeated by profit taking and the emergence of anti-European sentiment in the UK, expressed first by Sir Alan Walters, and then by Mr Nicholas Ridley.

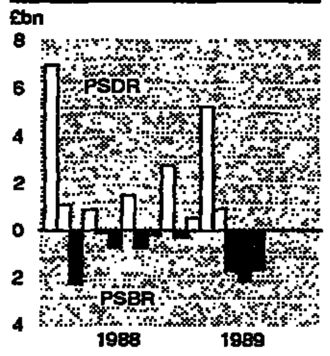
First out today are June's provisional retail sales, expected to reflect the consequences of the World Cup season. Television purchases and rental are likely to be strong, while fashion sales are expected to be weak. National income data suggests that the growth of total consumer spending is running ahead of its retail sales component.

Industrial output should rise 0.4 per cent on the month, with manufacturing industries a touch more. There are signs that North Sea oil production is recovering from the accident-hit levels of a year ago.

Tomorrow's public sector borrowing requirement is likely to be the third consecutive bad figure, confirming that public sector finances are in bad shape. It is still too early to judge whether the predicted £7bn surplus will be annihilated by higher inflation, spending, and diminished tax revenues.

The labour market statistics on Thursday will be keenly watched to show any loosening of the labour market and consequent downward pressure on wage settlements. Unemployment rose for the second month running in May, but economists are suggesting that any upturn will be gradual, given the strength of consumer demand and UK exports. Average earnings are not expected to show any upward movement from their current level of 9.5 per cent. Money supply figures on the same day are likely to be enlarged by the substantial PSBRs so far this year.

Public sector finances



Other notable events and statistics, with median forecasts from MMS International, the financial research company:

Today: UK, provisional retail sales, CBI/FT distributive trades survey, industrial production for May, manufacturing output for May. US, business inventories for May (up 0.3 per cent). France, June consumer price index. West Germany, balance of payments.

Tomorrow: UK, public sector borrowing requirement. US, merchandise trade deficit for May ($7.7bn), industrial production (up 0.2 per cent) and capacity utilisation for June (83.6 per cent).

Wednesday: US, consumer price index, excluding food and energy (up 0.3 per cent), housing starts for June (1.21m), two-year note auction announced. Mr Alan Greenspan to deliver Humprey-Hawkins testimony to Senate Banking Committee. France, May industrial production.

Thursday: UK, June unemployment, May average earnings, manufacturers unit labour costs, whole economy costs, June provisional money supply, first-quarter institutional investment, regional trends 1990 annual publication.

Friday: US, one-year bill auction announced. France, June trade balance.

SYNDICATED LOANS

Thyssen to raise $1bn revolving credit

THYSSEN, the German industrial and trading company, is raising $1bn from domestic and international banks.

An aggressively-priced seven-year revolving credit was launched into syndication last week through Deutsche Bank and J. P. Morgan. Banks have the option to extend the maturity to 10 years on the second anniversary of signing.

It carries an annual facility fee of 8 basis points, whether used or not. If drawn, the interest margin over money market rates steps up in thirds: drawings up to 33 per cent carry a 10 basis point margin, rising to 14 basis points and to 20 basis points. Drawings in D-Marks carry a margin over Frankfurt interbank offered rates of 30 basis points.

Turkish borrowers remain active. The Turkish Grain Board is raising $500m through Manufacturers Hanover. The financing, guaranteed by the republic, carries a 40 basis point margin for a $400m one-year credit and a 60 basis point margin for the $100m two-year credit.

This should carry the low weighting applicable to sovereign credits under the Basle accords. So should the $1bn three-year credit for the Australian Wool Corporation, on course for signing on July 25. The credit, underwritten by five banks, carries a 6.25 basis point facility fee and a margin also of 6.25 basis points.

Aluminium Bahrain has expanded a project financing from $560m to $650m.

In the UK, WestLB is arranging a £60m credit for Ocean Group, the industrial and distribution company. The five-year credit will refinance short-term facilities. It carries a spread of 25 basis points and a commitment fee of 15 basis points if utilisation falls below 60 per cent.

Kingfisher, the retail group, has established a £500m multi-currency Eurocommercial paper and medium-term note programme, replacing an existing programme.

Stephen Fidler

INTERNATIONAL BONDS

Euromarket gets to grips with new pricing methods

THE EUROBOND market is gradually feeling its way towards an accommodation with the new pricing and syndication methods that began to be practised last year. But the process is proving painful and remains dependent on sensible exploration of the various methods advocated by syndicate officials.

The market continues to give signs that chasing a quick buck can take priority over a long-term approach. Some houses are persisting in their efforts to introduce transparency and fair rewards, while others seem content to attack even innovations in search of profits.

Last week's deals included plenty of examples which indicate the tensions and contradictions still being worked out.

Three deals in particular lend insight into the way the market is taking shape for the future.

First, the World Bank showed that it understands the effect of growing institutional investor power on its traditional borrowing grounds. It had already pioneered the use of the global bond structure in the dollar sector, launching two $1.5bn deals for simultaneous placement and trading across the world's securities markets. A third such issue, thought to be $2bn in size, is scheduled for September.

At the same time, however, World Bank officials were taking a hard look at the borrowing opportunities in less developed sectors. Like other international agencies, the bank has long found often extraordinary arbitrage opportunities in the minor currencies like Australian and New Zealand dollars.

According to Mr Kenneth Lay, deputy director of financial operations for the bank: "These markets also collectively represent a substantial pool of savings for us to tap."

In recent months, the Euromarket has expanded this potential funding route by following in the slipstream of the liberalisation of financial markets in countries like Spain and Norway.

Within the smaller markets, however, borrowers like the World Bank realised there was a developing tension between domestic institutions and the offshore investor base. Further, as liberalisation took effect, the arbitrage levels, although still attractive, were declining from their best levels.

This led directly to the bank's NZ$250m (US$148m) innovative seven-year deal launched on Tuesday by Fay, Richwhite. Brought as a domestic issue, the deal allowed offshore participation, was free of withholding tax, and had all the characteristics of an international bond offering.

The advantage of this structure is that it allows larger blocks of funding, giving a much-requested liquidity to the large institutional investors which increasingly have the power to decide the fate of issues. By having a clearly domestic centre, however, it also marks its difference from the World Bank's previous global deals in the dollar sector. Frustrating the structure might be the difficulty of finding swap counterparties in sectors which are inherently under-developed and less liquid.

The other deals which are worth examining tell much about the main Eurobond market, where competitive and creative tensions remain as strong as ever.

The $500m 10-year issue brought for the European Investment Bank by Merrill Lynch was further proof that aggressive bidding for mandates does not square well with the fixed-price re-offered method of syndication.

In a competitive situation, where a borrower has made it clear that the mandate will be awarded on price grounds, it follows that the winning price will not represent the market clearing price, but the tightest price at which business can be done. Underwriting fees have virtually to be discounted.

Thus, members of the EIB syndicate agreed they were able to sell a few bonds at the launch spread of 47 basis points over Treasuries. But, sour grapes aside, they argued that the market clearing price was in the low 50s, a judgment apparently vindicated by the performance of the issue once it was freed to trade.

One senior market figure said on Friday that the deal had done great damage to the fabric of the re-offer mechanism. "We would have preferred an old-style structure, even if only cosmetic, to protect the newer method from this sort of use," he said.

It appears the re-offered method has been dragged into disrepute by being used for deals to which it is inappropriate. The idea behind it, that of clarifying the rewards for placement and underwriting skills via consensus pricing and disciplined trading, has been twisted into a parody that sends the wrong signals to borrowers and investors alike.

By contrast, the week also threw up a bought deal which was syndicated in a constructive way. Although not without its problems for the underwriting community, in that it shows one price for distribution skills, the technique used by Nomura International for its $200m reopening of a $300m deal for SBAB was widely praised.

Having taken the entire deal itself, Nomura offered members of the syndicate of the original deal a five basis point discount to the issue price on as many bonds as they wanted.

Five basis points might seem a meagre reward, but rival syndicate officials were unperturbed. "The fact that we're not underwriting justifies a lower commission, and at least we get the fee," was one comment. "This is a sensible way to handle this sort of deal."

It might be useful to characterise the market as being in a transitional phase, during which syndication techniques are still being negotiated between the leading members of the underwriting community. A consensus of anger suggests that banks know what they want from the fixed-price re-offer. Now they must start declining invitations when they dislike what they see.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Student Loan Mkt Ass.†♦	600	1991	(d)	25bp	100	(d)	-
Banco di Roma(e)†♦	175	1999	9	5bp	100	Lehman Brothers Int.	-
Kao Corp.(f)Φ	300	1994	4	4¾	100	Yamaichi Int. (Eur.)	4.750
Kuraray Co.Φ	200	1994	4	4¾	100	Daiwa Europe	4.750
Furukawa ElectricΦ	300	1994	4	4¾	100	Yamaichi Int. (Eur.)	4.750
JGC Corp.Φ	170	1994	4	4¾	100	Nomura Int.	4.750
Sumitomo Metal Ind.Φ	320	1994	4	4¾	100	Nikko Secs.(Eur.)	4.750
Sumitomo Bank Int. Fin.(g)♦	500	2000	10	9.55	99.972	Goldman Sachs	9.783
EIB♦	500	2000	10	9⅛	99⅞	Merrill Lynch Int.	9.223
Nacional Financiera(h)♦	100	1995	5	11¾	98¾	CSFB	12.098
Sumitomo Bank Int. Fin.(i)†♦	700	2000	10	25bp	100	Sumitomo Fin. Int.	-
Orient Corp.Φ	300	1994	4	4¾	100	Nomura Int.	4.750
Swedish Nat. Housing(j)♦	200	1995	4¾	9½	100.675	Nomura Int.	9.297
ASLK-CGER IFICO(k)†♦	50	2000	10	(k)	100	Mitsubishi Fin. Int.	-
Amex Credit Corp.(s)♦	150	1993	3	9	99.85	Lehman Brothers Int.	9.059
AUSTRALIAN DOLLARS							
State Bank Sth. Australia(l)♦	100	2001	10½	6	61	Nomura Int.	13.291
GMAC Australia Finance♦	75	1994	4	14¾	101.65	Hambros Bank	14.182
Bqe. Gen. du Lux'bourg(m)♦	50	1991	1	20	101¾	Bankers Trust Int.	17.936
Australian Gas and Light♦	50	1993	3	15⅜	101.95	Westpac Banking	14.528
NEW ZEALAND DOLLARS							
World Bank(c)♦	250	1997	7	12½	100.90	Fay, Richwhite (UK)	12.683
D-MARKS							
Miura Printing Corp.★★♦	12	1994	4	9¼	101¾	Mitsubishi Bank	8.713
Skand. Enskilda Banken♦	200	2000	10	9	102	Deutsche Bank	8.693
Cesk'venska Obchodni Bk♦	250	1995	5	10	100¾	Commerzbank	9.803
Japan Telecom Co.★★♦	60	1995	5	9¼	101¾	IBJ (Germany)	8.802
ECUs							
Dresdner Finance♦	200	1995	5	10⅛	101.60	Dresdner Bank	9.706
SWISS FRANCS							
Maruko Inc.(b)★★§♦	150	1996	-	4	100	Bank Morgan Stanley	4.040
Nordbanken(a)♦	100	2005	-	7⅛	102	UBS	6.907
Toyota Motor Credit★★♦	85	1997	-	7	102	Credit Suisse	6.634
Nat. Investeringsbank★★♦	50	1995	-	6⅞	101¼	SBC	6.574
IMI Bank Int.★★♦	50	1994	-	7¼	101⅝	Banca del Gottardo	6.773
Sacos Corp.★★♦	20	1995	-	7⅝	100¾	Dai-Ichi Kangyo Bank	7.440
Province of Nova Scotia♦	250	2000	-	7	101½	UBS	6.789
AOI Advertising Prom.★★♦	30	1995	-	7⅝	100¾	SBC	7.440
Kinoshita Housing★★♦	30	1997	-	7⅝	101	Saitama Finanz	7.437
STERLING							
Cr. Lyonnais(London)★★‡♦	60	1995	5	(r)	100	Cr.Lyonnais Euro-Secs.	-
PESETAS							
World Bank♦	10bn	1995	5	13¾	101.40	B. Espanol de Credito	13.349
AUSTRIAN SCHILLINGS							
Petroleos Mexicanos♦	500	1996	6	11	100	Creditanstalt-Bkverein	11.000
FINNISH MARKKA							
Okobank♦	100	1993	3	13⅝	101¼	Nikko Secs. (Europe)	13.095
LUXEMBOURG FRANCS							
MEPC Int.♦	1bn	1996	6	9½	101¾	Credit Europeen	9.109
Comit Finance(Jersey)★★♦	600	1997	7	9⅝	101⅞	BGL	9.249
Soc. Generale Acceptance♦	1bn	1997	7	9⅜	101½	Sogenal	9.076
Commerzbank Int.♦	1.5bn	1998	8	9⅜	101⅜	Kredietbank Int.	9.125
YEN							
Alliance & Leicester B.S.♦	15bn	1993	3	7.4	101⅜	Mitsui Taiyo Kobe	6.877
African Dev. Bank(n)♦	30bn	1997	7	7¼	100⅜	Nomura Secs.	7.180
Credit Foncier♦	25bn	1995	5	7⅛	101⅝	Yamaichi Int. (Eur.)	6.732
Instituto de Cr. Oficial(o)†♦	20bn	2000	10	-50bp	100	IBJ Int.	-
Credit Local de France(p)♦	15bn	1997	7	7	95.70	Nomura Secs.	7.962
Unibank A/S★★♦	10bn	1997	7	(q)	(q)	Bk of Tokyo Cap.Mkts	-

★★Private placement. †Floating rate notes. §Convertible. ΦWith equity warrants. ♦Final terms. a) Call after 10 years at 101 declining ¼% p.a. b) Put option June 1994 to yield 6.391¼. c) Global issue. Fixed re-offer price. Coupon paid semi-annually. d) Global issue. Book-entry. Coupon pays 25bp over 91-day T-Bill auction rate. Maturity January 1991. e) Coupon pays 5bp over 6-month Libor. Call at par on August coupon dates from 1993. Put at par on August coupon dates in 1993, 95 and 97. f) $100m launched in Asia through Nikko Merchant Bank(Singapore). g) US domestic issue. Non-callable. Unlisted. h) Put in August 1993 at 98.45. i) Coupon pays 25bp over 3-month Libor, then years 6-10 35bp over Libor, call at par after 5 years. j) Fungible with $300m issue launched in May. Issue price plus accrued interest. k) 35bp over 6-month Libor years 1-5, 50bp over 6-month Libor years 6-10. Call at par July 1995 and on coupon dates thereafter. l) Fungible with existing A$200m bond. m) Redemption in A$ or C$ at C$ 0.87 at borrower's option. n) Daimyo bond issue. o) Coupon pays 50bp under Japanese long-term prime rate. Call July 1995 and every six months thereafter. p) Reverse dual-currency bond. Principal in yen, coupon in A$. q) First three months ⅛ over 3-month Libor, thereafter 7¼% fixed. r) Coupon pays 30bp under 3-month Libor. Put at par on any quarterly coupon date. s) Fixed re-offer price. Note: Yields are calculated on AIBD basis.

African Development Bank debt upgraded

By Tracy Corrigan

THE African Development Bank's senior debt rating has been upgraded to triple-A from double-A plus by Standard & Poor's, in line with the other two large US credit rating agencies, Moody's and Fitch.

The bank's subordinated debt rating has also been raised to double-A from double-A minus. The changes affect about $3.7bn of debt.

According to the S&P, the upgrade reflects the "further strengthening of the bank's traditionally conservative financial policies and a steady improvement in operations and administration."

The African Development Bank's income rose to 119m units of account in 1989 from 63m units in 1988 — one unit of account is equal to $1.39 — due to an increase in lending, said Mr Milan Kerno, the bank's vice president, finance.

A system of billing in the currency of lending, introduced this month, will reduce the bank's currency exposure.

Also, the bank's lending rate is being floated instead of fixed as of this month, which will allow greater flexibility in fund raising, said Mr Kerno.

The bank's 1990 funding programme of $1bn equivalent is likely to include a DM150m to DM200m Eurobond at the end of summer and a $100m issue, either in the US or the Euromarket.

The bank also plans to launch a multi-currency US and Euro medium-term note programme.

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	876.0	30.0	276.1	12,088.5
Prev	1,122.7	0.0	50.0	13,354.3
Other	2,748.4	122.9	1,460.8	6,447.5
Prev	1,026.8	0.0	593.7	6,415.1
Secondary Market				
US$	13,646.8	736.4	3,177.4	8,723.3
Prev	20,016.4	587.9	7,987.7	11,621.0
Other	24,136.9	862.4	4,164.2	30,832.1
Prev	20,618.3	1,469.8	4,776.7	38,557.8

	Cedel	Euroclear	Total
US$	14,272.8	25,281.7	39,554.5
Prev	23,158.7	30,981.3	54,140.0
Other	31,779.9	38,995.3	70,775.2
Prev	32,682.6	40,775.6	73,458.2

Week to July 12, 1990 — Source: AIBD

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Bank sues over Leigh Instruments C$41m debt

By Bernard Simon in Toronto

CANADA'S Toronto-Dominion Bank has begun legal proceedings against GEC, Plessey and Siemens, among others, in an effort to recover C$40.5m (US$35.2m) it lost in the collapse earlier this year of Leigh Instruments, an Ottawa-based electronics company controlled by the British and West German groups.

In a statement filed with the Supreme Court of Ontario, TD has alleged "breach of contract, negligent misrepresentation and deceit" on the part of Plessey, GEC, Siemens and several of their senior officials in Leigh's dealings with the bank in the period leading up to its bankruptcy last April.

The defendants, who also include Leigh's senior management, have up to two months to respond to the claim.

Once regarded as a star of the Canadian defence electronics industry, Leigh's financial troubles stemmed from huge cost overruns on a contract from the Canadian navy for a sophisticated shipborne communications system.

Leigh was acquired in April 1988 by Plessey, which itself was taken over by GEC and Siemens 18 months later.

Although TD's loans to Leigh were initially secured by the company's assets, the bank says that it gave up its entire security in March 1989 to accommodate Plessey's financing obligations.

It several times increased the size of its loans to Leigh, rising to a peak of more than C$40m at the time of Leigh's bankruptcy.

The bank alleges that, contrary to the terms of a number of loan agreements, it was never made aware of Leigh's deteriorating financial condition until shortly before the company declared bankruptcy last April.

According to the statement of claim, TD was not furnished with Leigh's financial statements for a nine-month period during which the company was adjusting its accounting practices to those of Plessey and GEC.

Tuffier ordered to suspend business for three months

By William Dawkins in Paris

FRENCH Stock Exchange authorities and shareholders of Tuffier et Associés, the stricken securities firm, met over the weekend to try to avert a financial crisis which is feared could harm the Paris financial market's reputation.

Their emergency meetings followed the decision of the Conseil des Bourse de Valeurs, the stock market regulator, to declare that Tuffier, one of France's largest independent stockbroking firms, was temporarily insolvent.

It has demanded that Tuffier suspend all operations for a maximum of three months while a solution is found to the financial crisis which forced Tuffier last week to lay off 100 people, a third of its staff.

While the council emphasised that its decision was "of a technical and conservative" nature, the move has caused alarm as the most serious recent sign of the downturn in French stockbroking business. According to some estimates, two thirds of Paris' 45 broking firms are losing money because of falling volumes and the contraction in margins that has followed last year's ending of fixed commissions.

Brokers fully owned by large banks have taken the lead in offering cut price services for volume customers, so squeezing the independent firms.

The council will meet tomorrow to decide on any solutions on offer from Tuffier and its shareholders, which include the Banques Populaires French retail banking group and UK institutions Charterhouse, Electra and Globe. The authorities are understood to want to try everything possible to avoid putting Tuffier into bankruptcy and so defend the Paris market's international reputation.

First unofficial estimates are that Tuffier needs FFr300m ($54.2m) to cover losses and leave it with enough working capital to restart as a going concern. Mr Thierry Tuffier, who founded the firm in 1969, said last week that losses reached FFr65m, more than a third of shareholders' funds, in the first five months of 1990.

Apart from staff reductions, Mr Tuffier is also considering spinning off his asset management division into a separate company which may have a large UK insurance group as a significant shareholder.

Czechoslovakia taps Eurobond market

By Tracy Corrigan

CZECHOSLOVAKIA tapped the Eurobond market for the first time on Friday.

Ceskoslovenska Obchodni Banka, the country's foreign trade bank, launched a DM250M five-year Eurobond; guaranteed by Ceskoslovenska Statni Banka, the state bank. Commerzbank is the lead manager.

Czechoslovakia is one of east Europe's stronger credits.

In the process of joining the International Monetary Fund, it had external debt of $7.4bn at the end of the first quarter. Czechoslovakian institutions have tapped the syndicated loan market regularly, and earlier this month Komercni Banka, the state owned bank, launched a 1bn koruna domestic bond issue.

Access to the international bond markets, which have a broader investor base, will increase the capacity of eastern European countries to fund their own development.

The 10 per cent Eurobonds were aimed at retail investors, and dealers said the double-digit coupon, as well as German investors' cultural affinity with Czechoslovakia, helped boost demand for the paper.

Low prices and high costs dent Alcan profit

By Bernard Simon

LOWER METAL prices as well as higher interest charges and other expenses made a big dent in the second-quarter performance of Alcan Aluminium, the Montreal-based aluminium producer, pushing earnings to one-third of last year's.

Net income after payment of preferred share dividends was US$78m, or 35 cents a share, down from US$239m, or US$1.05 a share, in April-June 1989. The latter figure included a non-operating gain of $36m, or 16 cents a share.

Earnings for the first six months fell to $245m from $503m. Second-quarter revenues dipped by just over 9 per cent to $2.17bn, while expenses rose slightly to $2.06bn. Debt-service charges jumped to $49m from $34m.

Shipments of ingots rose to 202,000 tonnes from 197,000 tonnes, but deliveries of fabricated products declined substantially to 379,000 tonnes from 396,000 tonnes a year earlier. However, shipments of fabricated items were higher than in the previous three months.

With worldwide operations and an increasing emphasis on value-added items such as building products and packaging, Alcan's fortunes are closely tied to general economic conditions.

The biggest fall in second-quarter earnings occurred in Latin America, as a result of economic turmoil in Brazil, where Alcan is the only local producer of aluminium sheet for beverage cans and has recently expanded its capacity and acquired a leading foil converter.

The company said lower profits in Europe were due largely to the slowdown of the British economy.

Earnings in North America were lower in the second quarter than in the same period last year, but slightly higher than the first three months of 1990.

Mr David Morton, Alcan chairman, said although metal prices had been unsatisfactory, "industry fundamentals remain stable, with inventories under control and operating rates high."

Samsung plans Mitsui chemicals link

By Stefan Wagstyl in Tokyo and John Ridding in Seoul

MITSUI Petrochemical Industries, a leading Japanese chemicals company, and Samsung, South Korea's largest industrial group, are planning a wide-ranging joint venture in petrochemicals.

The move comes amid intensifying competition among chemicals producers in both countries and fears that planned capacity increases will provoke fierce international price wars by the mid-1990s.

The two companies have confirmed that negotiations are at an advanced stage for the joint production of polypropylene and high-density polyethylene in South Korea for sale in Korea and in Japan. Mitsui and Samsung are understood to be considering an investment of about Y20bn ($129m). A jointly-owned plant would have a capacity of about 120,000 tonnes a year of polypropylene and 175,000 tonnes of high-density polyethylene.

Korean companies have been developing six petrochemical complexes in the hope they will be able to export output which is surplus to domestic needs. In Japan, producers have been expanding domestic capacity in the belief that other Asian countries' product quality was generally still too low for the Japanese market.

South Korea's ethylene production capacity is expected to increase threefold by 1995 to 3m tonnes per year, or nearly half of Japan's current production. The excess of supply over domestic demand is expected to be 1m tonnes a year.

Samsung, which is investing in petrochemicals for the first time, hopes the proposed tie-up will help it compete with established companies with the help of Mitsui's technical knowledge. Mitsui's plan is to undercut domestic Japanese producers with imported chemicals.

Korea currently does not export ethylene or propylene, although Yukong, South Korea's largest oil refiner, recently set up an office in Tokyo. However, Mitsui's marketing muscle will help Samsung's chances of success.

Mr H. K. Bae, a manager in the corporate planning department of the Samsung group, said although a final decision had yet to be taken, Samsung was interested in acquiring technological assistance in the operation of its first petrochemical complex, which is due for completion in the middle of next year. The proposed joint venture would also provide Samsung with Mitsui's marketing resources and access to the Japanese market.

Mitsui Petrochemical already has ties with Samsung Chemical in the production of pure terephthalic acid, but like most Japan-Korea tie-ups in the chemical industry, they are limited to the simple transfer of technology from Japan.

Rhône Poulenc raises FFr4.7bn

By William Dawkins

RHONE-Poulenc, the French state controlled chemicals group, has raised FFr4.7bn ($887m) in new equity to help replenish its balance sheet after last year's massive international takeover spree.

The group, which spent FFr12.4bn on buying businesses last year, will use the cash to pay for its latest acquisition and to reduce borrowings. It is budgeting to hold debts at 70 per cent of shareholders' funds by the end of this year, the same as its gearing at the end of 1989.

The French state has provided FFr3.4bn of the equity directly, with FF850m coming from the Crédit Lyonnais bank and the remaining FFr425m from the Assurances Générales de France (AGF) insurance group. Both institutions are controlled by the state, which will hand over to them all its new shares.

Of the total, Rhône-Poulenc will hand back FFr3.3bn to the state, as payment for the transfer to the chemicals group of the Government's 35 per cent stake in Roussel-Uclaf, the pharmaceuticals company, during the reorganisation of the state-owned chemicals industry completed early this year. The remaining FFr1.4bn will be used to reduce Rhône-Poulenc's borrowings.

The other part of Rhône-Poulenc's debt-cutting strategy is a programme of disposals of non-essential businesses, from which it plans to raise FFr8.2bn by the end of 1991 and so reduce debt gearing to around 50 per cent. It is close to achieving the first step of this, the FFr560m sale of part of the chemicals division of Britain's RTZ – which it bought last year – to Bayer of West Germany.

As a result of this latest capital increase, the French Government's direct stake in Rhône-Poulenc will fall from 87 per cent to 57 per cent, while Crédit Lyonnais will end up with 9.4 per cent and the AGF with 6.8 per cent.

Eastern Air Lines sees bigger losses

By Roderick Oram in New York

EASTERN AIR LINES will lose far more money this year than forecast earlier, Mr Martin Shugrue, the trustee appointed by the bankruptcy court to run the deeply troubled carrier, has told creditors.

He declined to give a figure at a press conference on Friday but he had told creditors earlier in the day the deficit could be more than $500m, according to people who attended the creditors' meeting.

The previous management team, led by Mr Frank Lorenzo, had forecast a loss of $330m shortly before the bankruptcy court relieved it of its duties in April.

Eastern, suffering from a machinists strike since March 1989, reported a loss of $852m last year.

Mr Shugrue, who had led Continental Airlines, the other operating subsidiary of Mr Lorenzo's airline holding company, out of bankruptcy several years ago, said Eastern could be profitable next year.

But he conceded that there was a 50-50 chance that Eastern could be sold. The company has been holding talks in recent days with NWA, parent of Northwest Airlines.

Canada tightens curbs on US groups

By Bernard Simon

THE CANADIAN Government has tightened controls on future financial services acquisitions by three US companies. The move is seen as a first response to heated complaints by domestic banks about the recent expansion by American groups into quasi-banking activities in Canada.

The Minister of State for Finance has revoked an earlier order that exempted the three companies – Ford Motor Company, Avco Financial Services and Commercial Credit Group – from being considered as foreign banks. The order, which will take effect in early 1991, means that all future acquisitions by the three in the financial services field will have to be cleared in advance by the federal cabinet.

Ford has extensive financial interests, including motor vehicle financing and consumer loans. Avco is also in the consumer loan and retail sales financing business, while CCC's activities in Canada include various insurance operations.

None of the three companies affected by the order has a banking licence in Canada. However, they will in future have to operate as "non-bank affiliates of a foreign bank."

An official at the Office of the Superintendent of Financial Institutions said yesterday: "These entities look more like banking entities than they did when the exemptions were granted in 1981."

With the US-Canada free trade agreement steadily eroding Ottawa's ability to vet US investments in Canada, the withdrawal of the exemption gives the Government a tool to monitor the expansion of US financial services interests.

US MONEY AND CREDIT

Fed move unlikely to impress banks

ONCE THE excitement about Mr Alan Greenspan's about-face on interest rates was over, the Treasury bond market was left to wonder what a modest monetary easing actually means.

In the context of the reluctance of commercial banks to lend money, the chronic state of the housing market, Congressional wrangling about tax increases and ever more demeaning finger-pointing over the savings and loan débâcle, it has to be wondered what effect the small drop in the Federal funds rate signalled on Friday can possibly have.

The first question which is being asked is how a small monetary easing by the Fed will offset a rise in the loan rates charged by banks, indicating a tightening in credit market conditions.

Griggs & Santow, the New York fixed-income analyst, asks: "Would banks seriously consider lowering their lending standards because the cost of money is a bit different?"

Further, it queries whether this is a proper use of Fed policy. "Such a problem, if indeed such a problem exists, would seem best handled by the bank regulators – altering their demands on the banks for greater capital and reduced risk-taking and encouraging business as usual with most of their lending activities."

There has no doubt been some reluctance among commercial banks to lend to highly-leveraged transactions for obvious and prudent reasons, and much of their enthusiasm for lending to real estate has clearly been dampened by the bad loans which already burden their portfolios.

But far more important has been a clamping down on lending practices by regulators who, as the row over the savings and loans crisis rages in Congress, are desperate to be seen to be doing their job and also to prevent another financial crisis emerging in the banking sector.

This attention by regulators has already been criticised by many in the banking world as overkill. Instead of a ¼ point drop in the Federal funds rate to 8 per cent – which appeared to be signalled by the Fed on Friday – perhaps banking regulators should simply back off a little.

Mr Greenspan's sudden acknowledgement of a tightening in credit availability – having maintained as recently as three weeks ago that there was no problem – has much more to do with politics than with economics.

The Fed chairman specifically said that an easing would not be in response to a perceived deterioration in the economy because he did not see any.

"The outlook remains very sluggish but, as I indicated three weeks ago, there is still no evidence that we can reliably focus on which, in effect, is saying that the economy is tilting over. We do not see that."

The story behind the latest easing in interest rate policy – which has stood still, as far as the Fed's target for Fed funds is concerned, for the abnormally long period of six months – relates much more to the debate in Congress over the budget and the storm over the savings and loans crisis.

A strand of the backroom negotiating has no doubt been discussions which have centred on a deal involving the Administration giving up its "no new taxes" pledge in order to achieve meaningful cuts in the budget deficit in return for the Fed's co-operation on lower interest rates.

The clamour from Capitol Hill has risen noticeably in recent weeks as the desire for a continuation of economic growth intensified.

A deteriorating budget deficit, and increases in taxation made even more likely by the enormous costs of the thrift bail-out, means likely increases in taxation come at a time when the economy is already chugging along at a very slow pace. Particularly with mid-term Congressional elections coming up in November, the Republican Party simply cannot afford a recession.

Although politics have no doubt played a large role in the timing and forthrightness of the Fed's move, there are, however, some powerful underlying reasons for easing policy. Mr Richard Hoey, chief US economist for Barclays de Zoete Wedd – and formerly much-respected at Drexel Burnham Lambert – sees a number of deflationary forces in the economy which he labels "deleverage drag." One aspect of this is a reduced willingness to demand credit – because leverage is out of fashion – and a reduced willingness to supply credit.

He notes that the kind of credit squeeze now being experienced is a "stand-alone risk crunch" rather than a classic credit crunch and is therefore more selective but more prolonged.

Another aspect of deleverage drag is an erosion of excess foreign liquidity which has supported the US economy for years.

An example of this is Japan, whose current account surplus has dropped to equal direct investment, and West Germany, whose budget deficit is rising and current account surplus falling. There simply will not be as much foreign money available to the US.

These factors contribute to the risk of recession as well as illiquidity in a substantial area of the US economy in spite of the fact that short-term interest rates have not been rising. These areas include real estate, the corporate sector and the government sector.

All in all, Mr Hoey believes that a borderline recession in the second half of this year is the most likely outcome, with a borderline recovery to follow next year.

Set against these arguments for lower interest rates are others which are likely to limit the extent of the Fed's Band Aid.

The US still has an inflation problem, notably in the labour market where unit labour costs are being pushed higher by rising benefit costs and weak productivity.

There is also the fact that yields are rising overseas, which make US debt instruments and the dollar less attractive.

With Treasury funding already running at record levels to cope with the rescue of thrifts, interest rates have to be kept relatively high to attract the ever-smaller pool of international money.

Janet Bush

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed funds (weekly average)	8.13	8.31	8.25	9.92	8.00
Three-month Treasury bills	7.83	7.75	7.93	9.11	7.20
Six-month Treasury bills	7.90	7.67	8.02	9.37	7.18
Three-month prime CDs	8.13	8.25	8.24	10.35	8.10
30-day Commercial Paper	8.15	8.15	8.15	9.95	8.05
90-day Commercial Paper	8.00	8.07	8.13	10.05	8.10

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	100¼	+⅜	8.42	8.54	8.47
20-year Treasury	106⅜	+⅞	8.56	8.62	8.53
30-year Treasury	100⅜	+⅜	8.45	8.50	8.42

Money supply: In the week ended July 2, M1 rose $8.8bn to $818.2bn

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 12/7/90	Average yield† (%)	Last week	12 wks ago	26 wks ago
Overall	145.85	7.19	145.80	142.61	145.45
Government Bonds	143.49	7.05	143.54	140.39	144.58
Municipal Bonds	147.97	7.19	147.89	143.95	146.63
Govt.-guaranteed Bonds	150.39	7.34	142.82	140.20	140.34
Bank Debentures	143.00	7.34	142.82	140.20	140.34
Corporate Bonds	148.80	7.36	148.64	145.78	150.09
Yen-denom. Foreign Bonds	154.83	7.60	154.61	152.06	156.27
Government 10-year†	6.78		6.73	6.86	6.05

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Cheap food saves market's bacon

THE HUMBLE potato saved the gilt market's bacon last week. A lower-than-expected rise in the retail price index for June provided a boost.

The Treasury 11¾ per cent 2003/2007 was up almost a point on the day at 102⅞ to yield 11.42 per cent – off its best for the year, but heading in the right direction.

The real message from the RPI figures, however, was that the inflation signals are reading amber at the moment: proceed with caution. This continues to put substantial imminent cuts in lower short-term interest rates in doubt.

The underlying rate of inflation – one of the Government's preferred measures – dropped very slightly from 7 per cent to 6.9 per cent. But this was mainly because of an erratic decline in seasonal food prices, especially fresh fruit and vegetables. The EC average was 5.5 per cent in May; and there are further price rises in the pipeline.

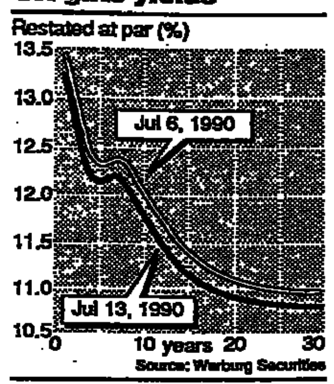
Unlike the foreign exchange market, the gilts market has not done as well out of speculation about early entry to the exchange rate mechanism of the European Monetary System as it might have done, had the economy been a little healthier.

Part of the reason is lingering worry over inflation, which has yet to top out. In the short term this should mean some improvement in the market, in spite of the lack of change in the underlying inflationary problems.

"People are still expecting an August peak above 10 per cent. But the domestic fundamentals are not the main driving force. ERM is boosting the market," says Mr John Shepperd of Warburg Securities. Barclays de Zoete Wedd considers that recent worries are "a setback before the market rallies again."

UK gilts yields

Restated at par (%)



Source: Warburg Securities

In the long term, ERM makes gilts a good prospect, since the UK yield curve should converge with the European average. "Eventually, 11 per cent long yields will look reasonable," says Mr Shepperd. "In the long term the prospects for gilts should be extremely bullish – but the process will be prolonged and painful."

This year's rally was skewed towards the short end of the market, which rose significantly more than the long end. In part, this is because interest rate cuts are expected to be the main bonus of ERM in the short term, and gilts with a short maturity would then represent good value. The prices of longer-dated gilts are less dependent on short-term rate cuts.

But the inverted yield curve means that longer-dated gilts are already providing much lower real yields than short gilts. This is responsible for the concentration of funds in short-term instruments and the money markets.

Longer-term capital will be unlikely to seek a home in UK government securities while they offer such poor returns in international terms. "It is difficult to make the distinction" between hot money and long-term investment on this basis, says Mr Shepperd.

The inversion is due to the stock shortage, caused by the government's buy-in programme, and the belief that short-term rates will have to stay relatively high for the foreseeable future.

The need to maintain the savings ratio, keep the current account under control, and provide steady support for sterling all mean that rates are set to stay relatively high, even if small cuts materialise, several analysts argue; indeed, this is one of the lessons from ERM entry of other high-inflation countries.

But if the UK yield curve looks to remain inverted, and at a higher level than its European partners, this could cause destabilising capital flows. There would be little incentive to stay in long gilts, and every incentive to borrow in other European currencies to invest in short-term sterling instruments. In the long term, this would be unsustainable.

If high short-term rates are to be the order of the day for some time, then it is not surprising that the long end of the yield curve is sluggish. Mr Roger Bootle of Greenwell Montagu suggests in his company's Gilts Weekly that the best trade at the moment is to move from the long end of the curve to the short end.

The yield curve may flatten later in the year, with most market participants confidently predicting a return to gilt supply. This is also suggested by the level of long-term rates within the ERM, BZW points out. "The long-term constraints on long gilts are real yields, which may need to converge upwards with Europe once inside the ERM."

It estimates the gap to be about 2 percentage points. Some of this will be achieved through a reduction in the inflation gap between the UK and Europe, but slowly; the implication is that long yields may have to rise, and that the gap between nominal yields in the UK and Europe is set to widen.

The fundamental disciplines that will converge UK inflation rates with those of the other European countries will take some time to emerge. In the meantime, high interest rates are likely to be the proxy. Effectively, the UK is already part of two-tier Europe and the fundamental cause is the UK's inflationary economic structures. Cheap vegetables do not solve that problem.

Andrew Marshall

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	99½	+⅛	9.22
ABN 9 1/8 94	200	99⅝		9.23
AETNA LIFE & CAS 7 3/4 16	200	96½	–⅛	8.08
ALBERTA PROVINCE 7 3/8 91	750	98		8.89
ALBERTA PROVINCE 9 3/8 95	600	101	+⅛	9.11
AMERICAN EXPRESS 0 00	450	38¾		9.63
AMERICAN GENERAL 9 3/4 95	100	97¼	–⅛	10.35
ANHEUSER-BUSCH 9 1/8 92	100	100½	+⅛	9.03
ASIAN DEV BANK 0 04	1000	29⅝	+⅛	9.09
AUSTRALIA 11 95	200	106¼	+⅛	9.36
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. DOLLAR STRAIGHT (cont.)	Issued	Bid price	Chg on week	Yield
SAS 10 1/8 95	150	102½	+⅛	9.57
SASKATCHEWAN 15 92	150	110½		9.34
SEAGRAM CO 8 1/2 96	100	94½	+⅛	9.78
SEARS O/S FIN 0 98	500	46⅝	+⅛	10.01
SEARS O/S FIN 11 5/8 93	150	104⅞	–⅛	9.77
SKANDIA INTL 7 1/4 92	200	97	+⅛	9.25
SNCF 7 1/4 94	175	95	+⅛	8.93
SNCF 9 1/2 98	150	101¼		9.18
STATE BK STH AUST 9 1/4 93	100	100	+⅛	9.21
STATE EL VICTORIA 10 92	100	101½	+⅛	9.10
STATOIL 7 5/8 94	200	94⅞	+⅛	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	89½	–1	6.98
AUSTRIA 4 5/8 98	100	88	+0⅛	6.69
COUNCIL EUROPE 4 3/4 98	250	87½	–¼	6.91
DENMARK 3 3/4 91	100	97½	+⅛	7.79
EEC 5 1/2 00	100	92	+1⅛	6.58
EIB 5 3/4 93	100	97½	+½	6.61
FINLAND 5 3/8 95	150	93⅛		6.81
JAPAN DEV BK 5 1/2 94	100	95	–2	7.12
MOUNT ISA FINANCE 5 3/4 94	100	89½	–½	9.11
NEW ZEALAND 4 7/8 99	200	86	–¼	7.11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Remaining sections of the FT/AIBD International Bond Service (Deutsche Mark straights, Yen straights, Other straights, Canadian dollar straights, ECU straights, Australian dollar straights, Sterling straights, New Zealand dollar straights, French franc straights, Floating rate notes, Convertible bonds, Equity warrants): [illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. [illegible]
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. [illegible]
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. [illegible]
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

UK COMPANY NEWS

Courtaulds sells Spanish acrylic fibres business

By Peter Marsh

COURTAULDS, the chemicals and materials group, has made another step towards reducing its activities in acrylic fibres, a part of the European chemicals industry which has suffered a steep downturn in the past few years.

The company is to sell for an undisclosed amount its activities in the Spanish acrylics business to a new Anglo-Italian joint venture, in which it will have a minority share. Last year Courtaulds' acrylics operations in Spain realised sales of £82m.

The new venture will be controlled by Enimont, the biggest chemical concern in Italy and the largest maker of acrylic fibre in Europe.

At the beginning of 1990 Courtaulds was the third biggest maker of the fibre in western Europe, after Enimont and Bayer of West Germany. It had an annual production capacity in this material of about 200,000 tonnes, roughly a fifth of west European capacity.

Courtaulds, which earlier this year spun off its finished-textiles business into a new company, announced last month plans to shut a fibre plant in Calais, France, one of its three acrylics factories.

As a result of the latest announcement, a second Courtaulds plant, in Barcelona, Spain, will leave the company's control and become part of the new Anglo-Italian joint venture.

Enimont will control this venture through Montefibre, a quoted Italian group in which it has a 59 per cent stake.

The deal with Enimont will leave Courtaulds with just one acrylics factory – in Grimsby in Britain – which has a production capacity of some 80,000 tonnes a year.

The new Anglo-Italian venture in Spain will run the Barcelona plant and another acrylics factory in Miranda de Ebro. This is currently operated by Montefibre.

In recent years, the west European acrylics-fibre industry has suffered a variety of problems as a result of weak demand from the textiles industry and large quantities of cheap imports from outside Europe. The business is operating at about 25 per cent below capacity and many factories have incurred heavy losses.

Courtaulds said that the purpose of the new joint venture was to strengthen the acrylics fibre industry in Spain and to optimise the resources of itself and Enimont.

Hardanger interim profits overstated

By Vanessa Houlder

HARDANGER PROPERTIES, the Kidderminster developer of retail property, has admitted that its interim results were overstated, following a "technical" delay in certain property sales.

Instead of pre-tax profits increasing from £2.86m to £3.1m for the six months to March 31, the restated figures shows they fell to £2.27m. Turnover, which was originally reported to be £11.59m, has been adjusted to £3.14m, while earnings per share have been amended from 27.07p to 19.83p.

Hardanger said the timing adjustment should not have any adverse effect on the year's profits, as the transactions were now scheduled for exchange and completion later this month.

Despite the difficult trading climate, the company was confident about the year's result.

The original figures contained the results of a management revaluation of certain properties, which was £3.1m higher than an independent one carried out at the last year end.

The revaluation arose as a result of new factors, mainly concerning rental levels, which became known since the end of the year.

The directors said they would either obtain a new valuation by the original valuers or dispose of the properties at a price that equalled or exceeded the restated book value by the year end.

Theo Paphitis leaves AT Trust as another rescue is planned

By Andrew Hill

MR THEO PAPHITIS, former chairman of AT Trust, has resigned as a director of the troubled property, financial services and leisure group.

Mr Paphitis took charge of the group three years ago, when it was a loss-making engineering and leisure company called Astra Industrial Group.

AT is now planning to raise £1.8m through a rights issue in an attempt to cut the burden of debt at the company, which has been hit by problems with its leisurewear operations.

The group warned that losses were likely to have increased in the second half of 1989-90. The group could also add to the £1.56m of extraordinary items written off in the first half, when it made a £484,000 pre-tax loss.

An earlier rescue plan – which would have involved Mr Michael Dart, a US businessman, investing £750,000 in AT and becoming chairman – fell through last month.

Under the new plan, Mr Colin Ulyatt is to become chairman. Mr Ulyatt, who used to work for British Shipbuilders, is a director of Energy & Marine Industries (EMI), which is to underwrite £1.2m of the rights issue.

Two other directors of the group – Mr Leonard Rae and Mr Alan Milton – are also connected with EMI, a holding company with interests in engineering and waste management.

AT said the rights issue price would be fixed as soon as the 1989-90 results were known and would be linked to the net tangible asset value of the group.

It added that it intended to review the possible £4m sale of Cerex Jewels, its gift retailing operation.

AT's shares, which reached a peak of 58p last August, were unchanged at 9p on Friday.

Investment trust moves to attract Globe money

By Nikki Tait

AN INVESTMENT trust group, Fleming Investment Trust Management, has finally challenged the attempts by unit trust rivals to win over private shareholders in Globe Investment Trust. The British Coal Pension Funds, which has waged a lengthy £1.11bn bid for Globe, gained control of its target a week ago.

FITM said that it would waive its normal £12.50 fee if holdings were sold through its savings plan share exchange facility. This scheme would allow Globe shareholders to sell their shares to Fleming for 205p apiece – identical to the Coal Funds offer – if the proceeds are reinvested in the group's investment trusts.

A number of unit trust groups – including L&G, Gartmore and Schroders – have already unvieled schemes designed to attract private investor money put into Globe.

Swanyard leaps to £230,000

SWANYARD STUDIOS, which is involved in operating recording studios, music publishing and promoting music artistes, saw pre-tax profits for 1989 increase by more than 2½ times from £87,000 to £230,000.

The company, which is quoted on the Third Market, said that, because certain profits, particularly royalties, take a considerable time to come through, it had not been possible to reflect the full value of record and publishing successes in the accounts.

The policy of recognising income only when received was standard industry practice, the company added, and had been adopted, although the half-year figures reflected royalty income on an earnings basis.

In the year under review the company's activities had changed considerably, Ms Margarita Hamilton, chairman, said. There were now eight operating subsidiaries at varying stages of development, relating to the core music business as well as interests in communications.

The developing businesses had already seen some success with the signing by Swanyard Records of Technotronic which reached Number 2 in the music charts. Swanyard Films had made a first-time contribution to profits with sales of Runaway Dreams.

Turnover was £2.28m (£785,000). The pre-tax figure was struck after an exceptional charge of £31,000 (£87,000). Earnings were 0.084p (0.061p).

Brit Building and Engineering falls to £0.32m

The profit decline experienced in the first half continued in the second six months at British Building and Engineering Appliances.

Profits in the second half for the Bedfordshire-based maker and hirer of scaffolding and other building equipment were £47,000, compared with £310,000. Directors said at the interim stage, when they blamed high interest rates, that trading in the period would be difficult.

The total for the year to the end of March was £324,000, less than half the £724,800 of the previous year.

Turnover was £6.19m (£6.7m). After tax of £116,000 (£286,200) earnings per share came out at 17.2p (37.7p). The directors are recommending a lower final dividend of 1.5p (2p) for a total of 2.5p (4p).

Danbury £1.2m in the red after exceptional charge

DANBURY GROUP, the USM-quoted property company, reported a pre-tax loss of £1.24m for the year to March 31 compared with a previous profit of £1.79m.

This was largely due to an above-the-line exceptional item of £2.3m, which related to the carrying value of certain development properties which had been written down to net realisable value in recognition of the current depressed state of the property market.

Mr Douglas Moonie, chairman, said the recession in the residential property sector since late-1988 had been followed by an equally severe recession in the commercial property sector, particularly from the last quarter of 1989 onwards.

He said that over the past months property values had weakened generally as investment yields had moved in line with the current high level of interest rates.

Total borrowings of £14.7m and gearing at end-March were higher than originally anticipated, principally due to the difficult market which affected the timing of sales.

However, borrowings would be reduced significantly in August when the final £3m tranche of the proceeds of the Maldon Ironworks sale was due to be received.

Turnover of the group was down from £4.45m to £3.93m and an operating profit fell to £1.06m (£1.79m) before the exceptional item.

After a tax credit of £307,000 (£623,000 charge) and minority interests of £9,000 (£7,000), the loss per share was 12.7p.

The directors have recommended the payment of a dividend of 0.562p for the year.

Wm Ransom's 7% increase

William Ransom, the manufacturing chemist, has reported annual taxable profits up 7 per cent, from £806,000 to £864,000, in the year ended March 31 1990.

They were struck after an unchanged deduction of £21,000 for profit sharing.

Sales for the year also rose 7 per cent to £6.54m (£6.12m).

After tax of £287,000 (£278,000) earnings per 10p share came to 3.76p (3.46p). The final dividend is 1.169p to make an increased total of 1.694p (1.52p) for the year.

Platon makes acquisition in France

PLATON INTERNATIONAL, the USM quoted, Hampshire-based instrumentation group, is to acquire Marine Industrie Petrole in France for FFr12.7m (£1.27m) in cash and is raising £1.75m through an institutional placing and an open offer to shareholders.

Based in Domont, near Paris, MIP's business is the manufacture and distribution of level switches and valves which are complementary to Platon's existing flow, pressure measurement and control products.

To finance the acquisition and to provide sufficient working capital to implement expansion plans for the business, funds advised by Thompson Clive & Partners have conditionally agreed to subscribe for 1,997,222 new ordinary shares and a further 1,997,222 new ordinary have been conditionally placed by Allied Provincial Securities.

These new ordinary are being offered to Platon shareholders by way of an open offer at the placing price of 53p a share. An EGM has been called for August 7 to seek shareholders' approval.

Lloyd's of London

We have been asked to make it clear that the manager of Pulbrook Marine Syndicate 334, mentioned on these pages on June 11, is Pulbrook Underwriting Management Ltd, and not an individual of the Pulbrook family.

FT Share Information Service

The following changes have been made to the Share Information Service:

Additions: Intrum Justitia NV (Section: Trusts, Finance, Land).

Deletions: Golconda Minerals (Mines-Australians).

Kromagraphic (Third Market).

Nevada Goldfields (Canadians).

Rockwood (Transport).

Spice (Motors).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Acsis, Central Motor Auctions, Evode, Plateau Mining, St. Andrew Trust, Yelverton Invs.

Finals- Excalibur, Firth (GM), Tomkins, Triplex Lloyd.

FUTURE DATES

Interims-

BWD Securities	July 18
Continental Assets Tst	July 26
Drayton Far Eastern Tst	July 19
Kleinwort Benson	Aug. 9
Royal Insurance	Aug. 15

Finals-

Abtrust Scotland Inv. Tst	July 20
Davies (D.Y.)	July 17
Heritage	Sep. 5
Multitone Electronics	July 18
Norbain Electronics	July 19

BASE LENDING RATES

	%		%		%
ABN Bank	15	Coutts & Co	15	Northern Bank Ltd	15
Adam & Company	15	Cyprus Popular Bk	15	Nykredit Mortgage Bank	15½
Allied Irish Bank	15	Dunbar Bank PLC	15	Provincial Bank PLC	16
Allied Trust Bank	15	Duncan Lawrie	15	R. Raphael & Sons	15
● Henry Ansbacher	15	Equatorial Bank plc	15	Roxburghe Guarantee	15
Associates Cap Corp	15½	Exeter Trust Ltd	15½	Royal Bk of Scotland	15
● B & C Merchant Bank	15	Financial & Gen. Bank	15	Royal Trust Bank	15
Bank of Baroda	15	First National Bank Plc	16	● Smith & Williamson Secs	15
Banco Bilbao Vizcaya	15	● Robert Fleming & Co	15	Standard Chartered	15
Bank Credit & Comm	15	Robert Fraser & Ptrs	15½	TSB	15
Bank of Cyprus	15	Girobank	15	Unibank plc	15
Bank of Ireland	15	● Guinness Mahon	15	● United Bk of Kuwait	15
Bank of India	15	HFC Bank plc	15	United Mizrahi Bank	15
Bank of Scotland	15	● Hambros Bank	15	Unity Trust Bank Plc	15
Banque Belge Ltd	15	Hatchette Trust Plc	15½	Western Trust	15
Barclays Bank	15	Heritable & Gen Inv Bk	15	Westpac Bank Corp	15
Benchmark Bank PLC	15	● Hill Samuel	§15	Whiteaway Laidlaw	15
Brit Bk of Mid East	15	C. Hoare & Co	15	Yorkshire Bank	15
● Brown Shipley	15	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	McDonnell Douglas Bk	15		
City Merchants Bank	15	Meghraj Bank Ltd	15		
Clydesdale Bank	15	Midland Bank	15		
Comm. Bk of London Plc	15	Nat Bk of Kuwait	15		
Co-operative Bank	*15	Nat Westminster	15		

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.9% Sterate 8.5% Top Tier-£10,000+ instant access 13.7% & Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.95%

FINANCIAL TIMES STOCK INDICES

	July 13	July 12	July 11	July 10	July 9	July 6	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	78.94	78.72	78.67	78.78	78.40	78.63	84.20	74.13	127.4	49.18
Fixed Interest	87.34	87.26	87.28	87.21	87.24	87.80	92.91	83.80	105.4	50.53
Ordinary	1880.1	1870.1	1877.7	1855.0	1859.3	1865.0	1968.3	1653.6	2008.6	49.4
Gold Mines	175.7	172.7	174.2	173.9	179.3	180.9	378.5	167.9	734.7	43.5
FT-Act All Share	1168.82	1164.78	1160.62	1147.60	1152.34	1154.10	1226.83	1043.16	1238.57	61.92
FT-SE 100	2382.2	2370.5	2360.5	2327.5	2337.5	2340.0	2463.7	2103.4	2463.7	986.9

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

AUSTRALIA

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO
Closing prices July 13

[illegible]

MONTREAL
Closing prices July 13

[illegible]

INDICES

NEW YORK
DOW JONES

[illegible]

STANDARD AND POOR'S

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

TRADING ACTIVITY

[illegible]

CANADA
TORONTO

[illegible]

[illegible]

TOKYO - Most Active Stocks
Friday July 13 1990

[illegible]

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Yield	6	400 1	400 1	427 9	5 79	40972
(Accum Units)	6	243 6	246.5	263 6	4 62	40973
Income	6	448 5	453 8	485 4	4.62	40974
(Accum Units)	6	59.36	59.36	63 49	1.49	40975
Intl High St UT	6	61 60	61 60	65.88	1 49	40976
(Accum Units)	6	326 2	326 2	349 0	0.00	40977
Japan Growth	6	342 9	342 9	366 8	0 00	40978
(Accum Units)	6	68.32	68 32	73 06	1 47	46363
Mandarin Tst	6	69.36	69.36	74.18	1.47	46451
(Accum Units)	6	70 92	72 06	77 07	2 40	40979
Mngd P'folio Acc	6	50.29	50 29	51 08	13 49	46502
Money Market UT	1½	58 60	58.60	59.48	13 49	47575
(Accum Units)	1½	117 4	118 7xd	126 9	0.77	40980
North American	6	144 9	146 5	156 7	0 77	40981
(Accum Units)	6	147.0	147 0	157 2	2 50	40982
Smaller Cos	6	164 6	164 6	176 0	2.90	40983
(Accum Units)	6	101 7	101 7xd	108 8	4 34	46224
Meridian Income	6	108.4	108.4	115 9	4 34	46677
(Accum Units)	6	119 1	119 1	127 4	2.18	46725
Meridian Growth						

Pilgrim Unit Trust Mngmt Ltd (0830)F

39 Pilgrim Street Newcastle upon Tyne NE1 6RQ

Administration & Dealing.

Unit Trust Accounting & Management Ltd

1 White Hart Yard, London SE1 1NX 071-407 5966

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	6	-	-	50 00	0 4	40998
European	6	-	-	50 00	0 00	44002
Global	6	-	-	50 00	0 5	44003
Pacific	6	-	-	50 00	0 00	44006
UK Income & Growth	6	-	-	50 00	0.4	44001

Premium Life Unit Tst Mngrs Ltd (1400)F

37 Perrymount Rd Haywards Heath 0444 458721

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Monthly Income	6	46 55	48 17	51.06	4 81	44014

Principal Unit Trust Mngmt Ltd (1600)F

16 South Park, Sevenoaks Kent TN13 1AN 0732 740700

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Principal Tst	5¼	97 47	99 40	105 75	3 50	47029

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units

OFFER PRICE
The price at which units may be bought

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows. ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours, ♠ - 1401 to 1700 hours ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing – 12 Noon Historic						
TR American Grth	5¼	47.51	47.51	50.67	0	41525
TR Eur Sp Sits Acc	5¼	44.75	44.75	47.71	0	41526
TR Eur Sp Sits Inc	5¼	43.88	43.88	46.79	0	41527
TR Far East Ocns Inc	5¼	23.91	23.93	25.54	0	41660
TR Far East Ocns Acc	5¼	23.93	23.93	25.54	0	41685
TR General Growth	5¼	77.76	77.76xd	82.72	2.94	41528
TR Global Tech	5¼	77.77	77.77	82.95	0	41529
TR Income Growth	5¼	86.87	87.72xd	93.32	4.64	41530
TR Income Monthly	5¼	52.13	52.13	55.45	6.90	41531
TR Japan Growth	5¼	86.37	86.37xd	91.70	0	41532
TR Overseas Growth	5¼	68.07	68.07	72.61	0	41533
TR Smaller Cos	5¼	77.21	77.21	82.13	3.71	41534
TR Special Ops	5¼	84.03	84.03	89.39	4.41	41535
TR Mngd Eq Plan Acc	5¼	36.22	36.22	38.53	2.98	41536
TR Mngd Eq Plan Inc	5¼	33.97	33.97	36.13	2.99	41537
TR Wrldw Sp Sit Acc	5¼	39.46	39.46	42.25	0	41538
TR Wrldw Sp Sit Inc	5¼	39.42	39.42	42.20	0	41539
TR Pension Portfolio						
TR American Grth ♦	6	28.38	28.76	30.48	0	46977
TR Eur Sp Sits ♦	6	35.51	35.98	38.14	0	46978
TR General Growth ♦	6	26.11	26.38	27.96	0	46979
TR Global Tech ♦	6	30.47	30.88	32.73	0	46980
TR Income Growth ♦	6	26.05	26.33	27.91	0	46981
TR Japan Growth ♦	6	27	27.23	28.87	0	46982
TR Mngd Equity ♦	6	27.71	28	29.68	0	46983
TR Overseas Growth ♦	6	29.13	29.53	31.3	0	46984
TR Smaller Cos ♦	6	18.25	18.44	19.55	0	46985
TR Special Ops ♦	6	17.31	17.48	18.54	0	46987
TR Stlg Liquidity ♦	6	26.71	27.18	28.31	0	46986
TR Wrldw Sp Sits ♦	6	32.02	32.57	34.52	0	46988
Trades Union Unit Tst Mngrs (1200)H						
NLA Tower, Addiscombe Road, Croydon 081-686 4355						
TUUT	5	254.2	260.1	273.7	3.43	41540
Triton Fd Mngrs. Ltd. (1000)H						

	Bid Price	Offer Price	Yield Gross	City-line
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1274	1292	2.07	47801
TR Exempt Nth Amer	945	960	3.38	47802
TR Exempt Pac Basin	947	961	1.32	47803

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Society				
(Investment Mngt M & G Inv Mngt Ltd)				
AA Friendly Sy June 13	–	176.5	–	41607
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	293.8	309.3	–	41608
Equity Ser. 1	131.4	138.4	–	41609
Prop. Acc. Ser 2	452.7	476.6	–	41610
Equity Ser 2	156.9	165.2	–	41611
Selective Acc.	351.7	370.3	–	41612
Prop. Ser. 4	360.4	379.4	–	41613
Equity Ser. 4	159.4	167.8	–	41614
Man. Ser 4	449.6	473.3	–	41620
Fixed Int. Ser. 4	218.9	230.6	–	41615
Indexed Inv. Ser. 4	143.7	151.4	–	41616
American Ser. 4	320.4	337.3	–	41617
Japan Ser 4	302.7	318.7	–	41619
European Ser 4	128.6	135.4	–	41622
High Inc. Ser. 4	472.6	497.5	–	41618
Money Ser. 4	252.5	265.8	–	41621
Intl Ser. 4	115.9	122.0	–	47021
Custodian Ser. 4	104.5	110.0	–	47022
Pension Funds				
Property	637.5	671.1	–	41623

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (REGULATED)(**)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Int.Ac.Bd.Acc*	£8.675	9 140	–	45356
KB Japan Fund		$259.39	–	45357
KB Sterling Asset	£28.31	28.31ad	–	45358
Signet Fd Bermuda		$16 97ad	0.96	45360
*Offer price inclusive of maximum preliminary charge				
Kleinwort Benson Islamic Fd Mgmt Ltd				
Islamic Fund	$6 40	6.90	0.48	45366
Lazard Fund Managers (CI) Ltd				
Lazard Cap Gwth Bond	$2776 62	2940.46	8.35	45385
Lazard Cur Acc Fd £	£17.86	17.87	14 2	45367
Lazard Cur Acc Fd US$	$14.31	14.32	7.3	45368
Lazard Cur Acc Fd Y	Y3,730	3,740	6.0	45369
Lazard Cur Acc Fd DM	DM50.16	50.17	6.9	45370
Lazard Cur Acc Fd SF	SFr36.19	36.20	7 75	45371
Lazard Cur Acc Fd FF	FFr153.98	153.99	8.4	45372
Lazard Cur Acc Fd DKr	DKr194	195	10	45373
Lazard Cur Acc Fd N Kr	NKr151.65	151.66	10.3	45374
Lazard Cur Acc Fd Man	$13.89	14.60	–	45375
Lazard D'fied Bnd (Inc)	$18.57	19.59	8.44	45386
Lazard D'fied Bnd (Acc)	$22.76	24.00	–	45387
Lazard European Fund	$52.13	55.29	1.0	45376
Lazard Far East	$65.11	69 44	–	45377
Lazard Global Equity	$28.88	30.73ad	1.0	45378
Lazard Int Inc $ (Inc)	$1026.93	1083.28	8.11	45388
Lazard Int. $ Inc (Acc)	$2291.04	2416.74	–	45389
Lazard Int Inc £ (Inc)	£8.88	9.35	11.84	46157
Lazard Int Inc £ (Acc)	£11 16	11.75	–	46158
Lazard Japan Fund	$56.51	60.38	–	45390
Lazard Nth Am.	$20 98	22.34	1 0	45379
Lazard Sel Port £ Cap	£13 77	14.87	–	45380
Lazard Sel Port £ Inc	£9.52	10.02	13.1	45381
Lazard Sel Port $ Cap	$14.10	15.22	–	45382
Lazard Sel Port $ Inc	$8.79	9.27	7 8	45383
Merrill Lynch Int Capital Mngt (GSY) Ltd				
Barclays Fd NAV July 11		$92.09	–	42709
India Fd NAV July 5		£2.1220	–	42710
Indonesian Cap Unit NAV		$11.43	–	47939

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Gartmore Fund Managers International Ltd						
PO Box 278, 45 La Motte St., Jersey 0534 27535						
Capital Strategy Fund Ltd (z)						
American Fd		$–	1.794		–	45067
Canadian Fd		C$–	0.8983		1.00	45070
British Fund		£–	2.313		3.00	45071
European Fund		DM–	6 681		–	45075
Eastern European		DM–	5.512		–	40648
Asia Pacific Fd		$–	2.441		–	45069
Japan Fund		Y–	778 6		–	45068
Australasian Fd		A$–	0.3596		1 00	45077
Global Resources		$–	0.8492		0 70	45080
Emerging Mkts Fd		£–	1.359		0.50	45079
Int Growth Fund		$–	3.070		0.20	45070
Sterling Bond Fd		£–	.9933		10.32	45072
ECU Bond Fund		Ecu–	0.9468		9.04	45076
Int Bond Fund		$–	1 184		6 65	45073
Global Conv Bd Fd		$–	18.32		1.48	45074
US$ Deposit Fd		$–	1 028		7.24	45061
Sterling Deposit Fd		£–	1.018		13.92	45060
French Franc Dep Fd		FFr–	10.36		8.84	45066
Swiss Fr Dep.		SFr–	5.154		8 05	45064
DM Deposit Fd		DM–	5.127		7.07	45062
Yen Deposit Fd		Y–	511.7		6.32	45063
Aust Dir Deposit Fd		A$–	1.054		13.40	45065

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Peseta provides a warning to sterling

High yielding currencies are in demand at present, including the Spanish peseta within the European Monetary System. This is causing problems for the authorities in Madrid, and some observers believe it could be a warning to Britain on locking a currency into the exchange rate mechanism before it can be justified by economic fundamentals. In this regard the peseta and sterling may have more than a little in common.

The average ERM inflation rate is around 3 per cent, but in Spain it is 6.5 per cent and in the UK the underlying level is 6.9 per cent. Short term peseta deposit rates are about 14¾ per cent and short term sterling rates are in the region of 15 per cent.

If the pound enters the ERM this year many City economists believe it will be on the same exceptional 6 per cent range of movement governing the peseta, but even this has not been enough to keep the Spanish currency under control. Last week the Bank of Spain was forced to sell pesetas on most days; since a revaluation is not a practical option, it may be left with the only alternative of cutting interest rates.

Spanish growth remains strong. The Organisation for Economic Co-operation and Development has forecast GDP growth of 4.2 per cent this year, slowing to 3.8 per cent in 1991. This is not a time when the Bank of Spain would chose to cut interest rates, and a pound supported by a similar interest rate structure could end up in the same situation. Whether this disturbs a UK Government already thinking about a general election is another matter.

UK clearing bank base lending rate
15 per cent
from October 5

£ IN NEW YORK

July 13	Close	Previous Close
£ Spot	1.8000-1.8010	1.8128-1.8138
1 month	1.01-1.00pm	1.02-1.00pm
3 months	2.97-2.95pm	2.95-2.93pm
12 months	9.85-9.75pm	9.77-9.67pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

July 13	Bank of England Index	Morgan Guaranty Changes %
Sterling	93.5	-18.9
U.S. Dollar	65.6	-12.7
Canadian Dollar	104.2	+1.5
Austrian Schilling	109.2	+11.3
Belgian Franc	110.7	-2.7
Danish Krone	110.0	+4.3
Deutsche Mark	117.8	+23.6
Swiss Franc	123.4	+21.8
Guilder	111.7	+15.3

STERLING INDEX

CURRENCY RATES

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

OTHER CURRENCIES

CHICAGO

MONEY RATES

LONDON MONEY RATES

	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
ECU Linked Dep. Offer	-	-	10	10⅛	10½	10⅜
ECU Linked Dep. Bid	-	-	9⅞	10	10⅜	10¼

Treasury Bills (sell); one-month 14¼ per cent; three months 14⅛ per cent; six months 13¾ per cent; Bank Bills (sell): one-month 14⅝ per cent; three months 14⅜ per cent; Treasury Bills; Average tender rate of discount 14.3026 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 29, 1990. Agreed rates for period July 25, 1990 to August 25, 1990, Scheme I: 15.84 p.c., Schemes II & III: 16.25 p.c. Reference rate for period June 1, 1990 to June 29, 1990, Scheme IV&V: 15.025 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from July 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989. Deposits withdrawn for cash 5 per cent.

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
1.650	14.90	15.00	15.00	15.00	-	-	0.08	1.05
1.675	12.50	12.50	12.50	12.50	-	-	0.23	1.58
1.700	10.00	10.00	10.00	10.00	-	0.10	0.51	2.16
1.725	7.60	7.50	7.50	7.69	-	0.20	0.96	3.03
1.750	5.20	5.07	5.41	5.89	-	0.58	1.64	4.08
1.775	2.95	3.17	3.66	4.39	-	1.19	2.48	5.36
1.800	0.35	1.81	2.36	3.22	0.16	2.13	3.75	6.85

Previous day's open int: Calls 364,368 Puts 398,097 (All currencies)
Previous day's volume: Calls 31,679 Puts 19,539 (All currencies)

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 13 1990								THURSDAY JULY 12 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	% chg ($) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (80)	150.42	-0.6	123.52	140.20	128.45	126.41	-0.8	5.51	151.16	124.78	142.13	130.10	127.23	158.31	125.85	135.06
Austria (19)	271.74	+49.1	223.14	253.29	232.05	232.01	+45.1	1.25	264.65	218.46	248.85	227.78	228.35	285.63	193.15	124.57
Belgium (61)	152.33	-1.5	125.09	141.97	130.08	127.16	-6.4	4.55	150.64	124.35	141.63	129.65	126.86	160.02	132.11	131.94
Canada (119)	140.47	-7.7	115.35	130.92	119.94	117.74	-7.8	3.44	138.99	114.74	130.68	119.62	116.75	153.61	130.37	144.53
Denmark (33)	265.10	+9.4	217.68	247.09	226.38	225.53	+4.0	1.28	260.46	215.00	244.90	224.17	223.79	265.10	238.69	215.11
Finland (26)	134.61	+1.0	110.53	125.47	114.94	108.58	-4.0	2.52	134.10	110.70	126.09	115.42	109.05	152.29	129.99	142.26
France (124)	160.02	+2.6	131.40	149.14	136.64	138.37	-2.3	2.96	157.37	129.91	147.96	135.44	137.07	168.85	141.69	124.44
West Germany (92)	139.49	+12.7	114.54	130.03	119.11	119.11	+9.5	1.88	138.34	114.19	130.09	119.06	119.06	139.49	122.05	93.75
Hong Kong (48)	144.49	+23.4	118.65	134.67	123.39	144.10	+22.8	4.38	143.23	118.24	134.67	123.28	142.92	144.49	112.24	104.36
Ireland (17)	187.47	+3.3	153.94	174.74	160.09	162.11	-1.5	2.70	184.95	152.67	173.90	159.18	161.21	198.57	172.72	143.26
Italy (96)	106.00	+7.7	87.04	98.80	90.52	95.20	+2.1	2.47	105.10	86.76	98.82	90.45	95.19	109.26	91.85	91.08
Japan (454)	153.15	-22.4	125.76	142.74	130.80	142.74	-20.4	0.59	150.91	124.57	141.89	129.90	141.89	197.26	124.40	179.95
Malaysia (35)	244.58	+6.8	200.83	227.95	208.85	254.61	+7.0	2.13	240.70	198.70	226.32	207.17	250.58	245.32	204.15	189.80
Mexico (13)	523.24	+60.8	429.66	487.69	446.82	1643.32	+71.7	0.32	521.68	430.64	490.52	449.00	1636.97	549.86	324.53	265.39
Netherland (43)	145.61	+1.2	119.57	135.72	124.35	123.05	-2.0	4.58	142.22	117.40	133.73	122.41	121.16	145.66	130.43	123.94
New Zealand (17)	69.99	-2.9	57.47	65.24	59.77	62.81	-2.5	6.98	69.39	57.28	65.25	59.72	62.51	75.36	59.57	66.20
Norway (23)	249.29	+24.7	204.70	232.35	212.88	213.59	+19.4	1.49	244.49	201.82	229.89	210.43	211.05	249.29	202.34	193.40
Singapore (25)	207.57	+17.1	170.45	193.47	177.25	173.76	+12.0	2.00	204.84	169.09	192.60	176.30	171.66	207.93	179.70	189.33
South Africa (60)	178.12	-9.4	146.26	166.01	152.10	155.43	+2.2	3.83	176.52	145.71	165.97	151.92	152.20	251.39	170.00	152.42
Spain (42)	181.12	+11.1	148.72	168.81	154.66	138.24	+2.3	3.97	178.54	147.39	167.88	153.67	137.49	181.12	132.84	151.56
Sweden (34)	230.52	+20.0	189.29	214.86	196.85	203.48	+15.6	1.99	228.36	188.51	214.72	196.55	203.00	232.74	173.89	176.81
Switzerland (67)	109.77	+16.7	90.14	102.32	93.75	94.73	+5.3	2.18	108.43	89.51	101.96	93.34	94.35	109.77	88.75	84.29
United Kingdom (303)	173.29	+9.2	142.30	161.50	147.97	142.30	-2.5	4.79	171.70	141.74	161.43	147.77	141.74	173.29	139.87	151.35
USA (539)	148.34	+3.7	121.81	138.26	126.68	148.34	+3.7	3.28	147.62	121.86	138.81	127.06	147.62	148.55	130.61	135.15
Europe (980)	155.05	+8.9	127.32	144.52	132.41	129.82	+1.1	3.54	153.27	126.52	144.11	131.92	129.22	155.05	135.57	125.61
Nordic (116)	215.67	+15.1	177.09	201.02	184.17	179.36	+10.1	1.69	212.79	175.65	200.08	183.14	178.44	215.67	185.01	172.64
Pacific Basin (659)	152.61	-20.8	125.32	142.25	130.32	141.91	-18.9	0.90	150.51	124.25	141.53	129.55	141.11	192.75	124.63	175.40
Euro-Pacific (1639)	154.01	-10.8	126.47	143.54	131.51	137.62	-12.0	1.98	152.03	125.50	142.94	130.85	136.91	174.18	130.35	155.59
North America (658)	147.76	+3.0	121.33	137.74	126.20	146.30	+3.0	3.29	147.00	121.35	138.23	126.54	145.56	147.87	131.02	135.62
Europe Ex. UK (677)	142.57	+8.8	117.07	132.91	121.77	121.92	+3.7	2.72	140.71	116.16	132.33	121.14	121.30	142.57	124.81	109.39
Pacific Ex. Japan (205)	145.34	+7.7	119.35	135.49	124.12	128.66	+7.3	4.77	144.96	119.68	136.32	124.78	128.48	145.34	122.53	120.84
World Ex. US (1831)	154.01	-10.6	126.46	143.56	131.52	137.52	-11.6	2.04	152.05	125.52	142.98	130.88	136.77	173.77	131.30	155.24
World Ex. UK (2067)	148.65	-7.7	122.06	138.56	126.95	140.85	-7.3	2.20	147.15	121.47	138.37	126.66	140.09	162.00	130.80	146.62
World Ex. So. Af. (2310)	150.67	-6.1	123.72	140.44	128.67	140.84	-6.9	2.45	149.16	123.13	140.26	128.39	140.11	161.84	131.95	147.00
World Ex. Japan (1916)	151.14	+5.3	124.11	140.88	129.08	140.19	+2.5	3.45	149.99	123.82	141.04	129.12	139.51	151.14	134.82	131.55
The World Index (2370)	150.83	-6.2	123.86	140.59	128.81	140.94	-6.8	2.46	149.32	123.26	140.41	128.53	140.20	162.05	132.25	147.03

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes: Deletion: Globe Inv.Trust (UK)(13/7/90). Name change: Union Enterprises to Union Energy Inc.(Canada)(12/7/90).

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

LONDON SHARE SERVICE

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BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS — Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING — Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]

INDUSTRIALS (Miscel.) — Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES – Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST – Contd

[illegible]

INVESTMENT TRUST – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

MINES – Contd

[illegible]

THIRD MARKET

[illegible]

6.20	Sleepy Kids 5p ..... γ	31	....	–	–	–	5068
2.49	Swanyard Studios 1p γ	1¼	....	–	–	–	4666
0.52	Systems Connections. γ	2¼	–8.3	–	–	–	5341
6.50	Tomorrows Leisure 20p γ	58	.. ....	–	–	–	4248
1.37	UPL Group 10p.... γ	34	... ...	‡	22.5	Dec. July	4362
9.63	Unit Group......... γ	180xd	7.5	3.7	9.7	Jan Aug Oct	4357
9.25	Video Magic Leis 1p γ	56	–3.4	4.8	26.1	Jan July	5071
3.84	Vista Ents 5p....... γ	4	–5.9	–	–	–	3994
6.95	Vizcaya Hldgs 5p.. γ	13	....	–	–	–	4193
16.8	Wilton Group 1p... γ	3¼	....	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- * USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ‡ Not comparable
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- [No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1.. γ	830	......
Finlay Pkg. 5p.... γ	53	......
Holt (Jos) 25p..... γ	1310	......

IRISH

Cap. 8½% Ln. 1991...	£98¼	.....
9pc Cap Ln 1996..	£96¼	0.1
Fin. 13% 97/02...	£113⅞	–0.1
Arnotts...............	205	6.8
Carrol (P.J.).. .... γ	126	0.68
Hall (R. & H.).... ..	165	......
Helton Hldgs.... .. γ	72	....
IRG...	195	–2.5
United Drug........	160	..

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	48
Amstrad	7
Astec (BSR)	6
BAT	62
BOC Grp	48
BTR	37
Barclays	34
Blue Circle	21
Boots	24
Bowaters	40
Brit Aerospace	47
British Steel	13
Brit. Telecom	25
Cadburys	30
Charter Cons	42
Comm Union	41
Courtaulds	29
Eurotunnel	55
FKI	7
FNFC	28
Gen Accident	46½
GEC	18
Glaxo	68
Grand Met	53
Guardian	20
GKN	33
Hanson	20
Hawker Sidd	53
ICI	99
Ladbroke	27
Legal & Gen	34
Lex Service	28
Lloyds Bank	25
Lucas Inds	13
Marks & Spencer	19
Midland Bk	24
Nat West Bk	30
P & O Dfd	52
Polly Peck	39
Racal Elect	19
RHM	30
Rank Org Ord	70
Reed Intnl	38
STC	21
Sears	9
SmKl. Beecham A	48
TI	39
TSB	11
Tesco	19
Thorn EMI	62
Trust Houses	24
T&N	18
Unilever	58
Vickers	19
Wellcome	57

Property

Brit Land	32
Control Secs	4
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Ariva Petlm	5
Brit Petroleum	28
Burmah Oil	55
Conroy Petlm	10
Gaelic Res	3½
Premier	9
Shell	40
Tuskar Res	5½
Ultramar	31

Mines

Lonrho	21
RTZ	58

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

4pm prices July 13

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A-A-A -								
37½	19	AAR	.48	2.1	14	1010	23¼	22¾	22¾	- ¼
9¼	8	ACM n	1.01	12.		134	8¾	8⅝	8⅝	
11⅝	9⅞	ACMIn	1.26	12.		609	10⅞	10¾	10⅞	+ ⅛
9¼	7¼	ACM M n	1.01	12.		431	8¾	8⅝	8¾	+ ⅛
12⅛	10	ACMMM				120	11⅛	11⅛	11⅛	
11½	9⅞	ACM Sc	1.26	12.		732	10⅛	10	10⅛	
9⅞	8⅛	ACMSp	1.01	12.		338	8½	8⅜	8½	+ ⅛
24⅝	14⅞	AL Lab	.16	.7	21	889	23½	23	23⅛	+ ⅞
5¼	2⅛	AM Intl				1077	2⅝	2½	2½	- ⅛
23⅛	10¼	AM In pf	2	16		47	12½	12¼	12⅜	
107¼	52½	AMR			12	7734	64⅜	61⅝	63⅜	+2
24¾	22¼	ANR pf	2.12	8.7		4	24⅜	24⅛	24⅜	
4¾	3	ARX				92	3⅛	3¼	3⅛	+ ⅛
72⅛	41⅞	ASA	3a	6.3		2095	47⅝	46	47½	+ 1¾
44	29⅝	AbtLab	s.84	1.9	21	8728	u44⅞	43½	43⅝	
15½	11¼	Abitibi	g .50			16	13⅞	13¾	13⅞	+ ⅛
12⅜	7½	AcmeC	.40	5.0	9	284	8¼	7¾	8	
9⅜	7⅞	AcmeE	.32	3.8	10	36	8½	8⅜	8½	
47¼	28⅞	Acusn			27	667	46⅜	45⅞	46	- ⅛
16½	13⅞	AdaEx	2.06e	13.		92	16½	16¼	16⅜	+ ⅛
15⅜	10	Adobe				377	11½	11¼	11⅜	
27⅝	20⅛	Adob pf	2.40	11.		2	21⅛	21⅛	21⅛	+ ¼
11⅞	8⅞	AMD			20	10251	9⅝	9¼	9⅝	+ ¼
32⅜	28¼	AMD pf	3	9.6		28	31⅜	30¾	31⅜	+ ⅞
10⅛	3⅞	Advest	.16	3.8	52	309	4⅛	4⅛	4⅛	+ ⅛
62½	45¼	AetnLf	2.76	5.2	9	1229	53⅞	53⅛	53⅜	+ ⅛
12⅞	9¼	AlIPb	.24	2.3		651	10⅝	10¼	10¼	- ¼
25	16⅛	Ahmans	.88	4.0	10	3346	22	21½	22	+ ⅜
3⅞	1⅞	Aileen				61	2⅝	2½	2⅝	+ ⅛
59⅞	40⅜	AirPrd	1.44	2.4	16	2237	u61	59½	60⅝	+ ⅞
26	14	AirFrt s			17	1194	25⅝	25¼	25⅝	+ ⅛
25⅛	15½	Airgas			31	253	20	19½	20	+ ¼
20¾	16½	Airlease	2.52	13.	9	48	19	18⅝	18¾	+ ¼
23¼	21¼	AlaP pf	2.06e	9.2		50	22½	22	22½	+ ¼
10¼	9⅛	AlaP dpf	.87	9.3		25	9⅝	9⅜	9⅜	
98⅝	92	AlaP pf	9	9.5		z100	95	95	95	+1
30½	19¼	AlskAir	.20	.9	11	932	23¾	22¾	23½	+ ¼
23½	13½	Albnyin	.35	2.6	9	1673	13⅞	d13¼	13⅝	- ⅛
27¼	20	Alberto	s.20	.7	23	858	u27⅞	26⅜	27¼	+ ⅝
21¼	15¾	AlCulA	s .20	.9	18	1186	u22⅛	21⅜	22⅛	+ ⅞
38¾	24⅛	Albtsn	s .48	1.3	24	1899	u37	36⅛	36⅝	+ ⅝
25⅛	18⅞	Alcan	1.12	4.8	7	24263	24⅜	23⅛	23¼	- ⅞
36⅝	28¼	AlcoStd	.84	2.2	14	625	u37⅞	36½	37⅜	+ ¾
34	23	AlexAlx	1	4.4	18	353	23	d22⅞	22⅞	- ⅛
64½	37½	Alexdr				18	37½	37½	37½	
101⅞	81¾	AllegCp	1.72t	2.0	9	7	86⅞	85⅞	86⅞	+ ⅞
1¼	7-32	vjAlgInt				938	9-16	7-16	½	+ 3-32
1⅞	9-32	vjAlgl pr				20	13-16	13-16	13-16	+ ⅛
5¾	7-16	vjAlt pfC				738	1⅜	1⅜	1⅜	+ ⅜

Continued on Page 31

Continued from previous Page

NYSE COMPOSITE PRICES

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
		- X - Y - Z -								
68½	43¾	Xerox	3	6.7	7	3297	45⅛	44⅛	44⅞	+ ⅛
34	21¼	XTRA	.48a	2.2		336	22	21⅞	22	+ ⅛
27⅝	18¾	XTRA pf1.94		9.9		10	19½	19¼	19½	- ¼
4¼	1½	Zapata				2159	2	1⅞	1⅞	- ⅛
12	5⅛	Zemex				22	5⅛	5⅛	5⅛	
7-16	1-32	Zemex rt				54	1-16	1-32	1-32	
19	7⅞	ZenithE				661	8	7⅞	7⅞	+ ⅛
21½	13½	ZenNtl	.88	5.9	9	76	15½	15	15	
9⅝	5⅞	Zenix	.90	14.		355	6⅝	6⅜	6⅜	+ ⅛
18½	12⅞	Zero s	.40	2.8	14	168	14½	14⅛	14⅛	- ⅛
50⅞	34⅝	Zurnin	.76	1.5	22	247	u51	50⅛	50⅛	- ⅛
12⅝	10⅝	Zweig	1.21e	11.		378	11⅞	11⅛	11⅛	+ ⅛
10	9	ZweigTl	.96	11.		1077	9¼	9⅛	9⅛	- ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices July 13

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
Pittway n.60a		16	21	36⅞	36½	36½	- ½
Pitwy A	.70	12	137	28⅞	28½	28½	- ⅝
PlyGem	.12	15	157	7⅞	7⅞	7⅞	+ ⅛
Presd B			189	1	6¾	6¾	6¾ + ⅞
Presd A	.10		445	6⅞	6⅞	6¾	+ ½
ProCom			54	3½	3⅜	3⅜	- ⅛
Prism		10	1	3⅛	3⅛	3⅛	

[illegible]

NASDAQ NATIONAL MARKET

4pm prices July 13

[illegible]

The Business Column

The reality of global localisation

A COUPLE of years ago Mr Akio Morita, the pace-setting head of Sony and latterday trade ambassador for Japan, generated considerable attention by attaching the label of "global localisation" to the process which his company and other leading Japanese corporations were beginning to initiate throughout their organisations.

By distributing to major markets around the world key activities which had until now been carried out by headquarters – notably research, design, development and engineering – it was argued that Sony, Honda, Sharp, Nissan and others were setting out to become real "insiders" in the US and Europe. By becoming better local citizens, they would also be able to harness the skills and resources of those regions for their gain.

The process has continued to gain momentum since Mr Morita's declaration, but the old master's own company has now become decidedly wary about allowing outsiders to observe it in any depth.

The reasons are not hard to find. For a start, concrete progress at Sony is taking time; the responsibilities of several engineering groups have been transferred from Tokyo to the US and Europe, but the numbers involved are still small. (The main exception is in professional broadcasting equipment, which has been organised on the "global localisation" principle for many years.)

Internal strains

More significant, the shift is proving even more tricky than Sony expected, creating internal strains which the company has no wish to advertise. Similar reticence afflicted several European and US multinationals a decade or more ago when they were in an equivalent phase of transition.

The difficulty of making an organisational shift from headquarters-dominated multinational to flexible "transnational" (in the jargon popularised by Professors Bartlett and Ghoshal, respectively of Harvard and Insead business schools), is underlined by the latest book from Japan's leading management expert, Mr Kenichi Ohmae, who heads McKinsey's consultancy operation in Japan.

In The Borderless World, Mr Ohmae outlines five stages by which companies move towards "a genuinely global mode of operation."

The first two are merely preparatory. In stage three – which many Japanese companies are now reaching – a corporation starts to carry out its own manufacturing as well as marketing and sales, in major foreign markets. In stage four it moves to an "insider position," by also doing local research, design, development and engineering.

Getting to stage five, however, requires a much greater leap. Instead of just replicating, in a new environment, the systems and operational approaches that have worked so well at home, Mr Ohmae says that companies must "denationalise" their operations and create a really international system of values shared by their managers around the world.

Daunting difficulty

As Mr Ohmae admits, few companies – of any nationality – have yet learned to operate entirely like this.

What the author does not spell out is the difficulty which any Japanese company will have not only in "decomposing" its headquarters to regional centres, but in denationalising its operations and its values in favour of country-neutral ones.

Nor does he really get to grips with the daunting difficulty of shifting to a fully-fledged stage four, in which local development and engineering is not done merely for local, more regional markets, but for global ones.

Few Japanese companies, and only a handful of Americans, have yet achieved stage four completely. Yet until they do so, they will be unable to generate the organisational learning needed for them to move to stage five.

In the meantime, be they Sony or IBM, they will be all too easily tempted by the political rewards of "insider" status to substitute the rhetoric of "global localisation" for the full reality.

Published by Harper Business (Collins), $21.95.

Christopher Lorenz

MONDAY INTERVIEW

Architect of a new economy

Leszek Balcerowicz, Poland's Minister of Finance, speaks to **Martin Wolf**

"IT IS absolutely crucial to be credible," argues Mr Leszek Balcerowicz, Deputy Prime Minister and Finance Minister of Poland, by now more than six months into the shock programme of which he is the chief architect. "This is why we are going to make every effort to persist, despite all the political pressures upon us. When I look at myself and my colleagues, I can say we are fully aware of the dangers: the gains from giving in would be short run; the losses would be very, very serious. This is why we are going to remain credible, despite the pressures. The stakes are too big."

Mr Balcerowicz first burst upon the world's awareness at the annual meetings of the International Monetary Fund and World Bank in September 1989. The appearance of the communist world's first non-communist government, under Solidarity's Tadeusz Mazowiecki, had been astounding enough. But what Mr Balcerowicz, confirmed as Finance Minister of Poland just two weeks before, had to say electrified the assembled worthies of the world economy.

He announced the new government's intention "to transform the Polish economy into a market economy, with the ownership structure changing in the direction of that found in the advanced industrial economies." A fast-talking, intense academic, his dry manner belied the startling nature of his matter. For Mr Balcerowicz was announcing a transformation more economically difficult and politically significant than any since the end of the Second World War.

Almost 10 months have passed since those still early days in what was to become the Autumn of Revolutions. The world has been amazed by the political events elsewhere in eastern Europe. But no eastern European country – except for the very special case of East Germany – has attempted economic stabilisation and reform with the remarkable single-mindedness of the Poles.

"We have to move quickly and we intend to do so," said Mr Balcerowicz last September. He kept his word. A comprehensive stabilisation and price liberalisation programme was agreed with the International Monetary Fund by the end of 1989, to come into effect in January. So how does the architect of the programme, one whose fate is watched closely even in Moscow, assess its successes, its failures and the steps that still lie ahead?

The stabilisation programme had two goals, Mr Balcerowicz points out. "The first one was halting inflation, since the annual rate of inflation in the second half of last year was about 2,000 per cent." But there was a second goal. This was "to turn an economy of shortages into a normal economy."

It was partly because of the importance of the second goal that "corrective inflation" was necessary. "We had to increase the prices of basic inputs, like energy, coal and also foreign exchange. We unified the exchange rate, stabilised the rate of exchange and introduced residents' convertibility.

"That is why the inflation rate in January was very high, 78 per cent, on the official price index, higher than we expected. But then there was a declining trend: 24 per cent in February, 4.7 per cent in March, then April was up to 8 per cent, but in May it was below 4 per cent and our forecast for June is about 3 per cent. The trend is right."

PERSONAL FILE

- **1947** Born in Lipno. Graduated from the Main School of Planning and Statistics – Foreign Trade Department.
- **1970** Researcher in Main School.
- **1972-74** Studied economics in US. Doctorate in economics from Warsaw.
- **1978-81** Creator and head of team of economists who worked on social economic reform project.
- **1981-82** Vice-chairman Polish Economic Society.
- **1980-81** Economic adviser to Solidarity.
- **1981-** Co-ordinator of European Economic Association in Poland. Author of 50 scientific publications. Visiting professor in UK, Sweden, India, Hungary, West Germany.
- **1989** Deputy Prime Minster and Minister of Finance.

The need for subsequent changes in relative prices, he argues, explains why Poland has not yet achieved complete stabilisation. "We had to change prices – for example, railway and telecommunication tariffs – which could not have been done in just one jump. This complicated our task of achieving complete price stabilisation." Yet, "I am reasonably satisfied with achievement of the first goal."

He is no less satisfied with progress towards the second. Poland is, indeed, no longer a country of shortages, as anyone who travels from Moscow to Warsaw will quickly discover. This achievement is, he admits, largely the result of the recession. But "one could not expect it otherwise, given the very short time in which the transition happened, in a month or two."

So does Mr Balcerowicz look on his work and see that it is good? Only up to a point. He recognises there have been three costs. The first is unemployment. "But unemployment was to be expected and the magnitude is not dramatic, between 3 and 4 per cent of the labour force. The second cost is the drop in real wages and other incomes. This was deeper than we expected," though, to an extent, the drop was a reversal of the unsustainable real wage growth of the previous two years. But the third and most important cost is the decline in production. In the first five months of 1990 the drop in production in the state sector was 30 per cent, according to official data.

"The main reason for such a serious reduction in output is the way state enterprises reacted to both the stabilisation programme and the rise in the prices of their inputs. They reacted as if they did not believe that the tough macro-economic policies would hold. So they applied traditional cost-plus prices" and allowed output to adapt to demand.

This torpor has since started to change, claims the minister, but slowly. "Some enterprises have started to look for new markets (which is why we have a better than expected situation in foreign trade): some have started to look at their costs. Some of them have even started to calculate how much their energy bill is, a thing many of them never considered before, because it was so cheap."

'We are going to remain credible, despite the pressures'

The fundamental question now is political. Will the Government be allowed to persist with its policies? There is much criticism, he notes, in Parliament, among economists (who do not matter so much, he says, since they do not vote) and workers. Yet "when parliament comes to vote on the major proposals we have not had any major difficulty." Similarly, workers have accepted the closure of uneconomic mines.

But can the huge cut in real wages really be maintained? Is the incomes policy not too harsh? The Minister insists that such a policy is inescapable in an economy without the countervailing force of private owners. The question is not whether there should be an incomes policy but what sort of one.

"Since inflation was very high, and our major goal was to halt inflation, the policy had to be very tough." In future, "enterprises that are privatised might be released from wage controls. For enterprises that are not yet privatised I foresee a milder form of wage control, depending on the situation in the economy.

Much depends then on the next vital stage of the programme – privatisation. How does the Minister react to criticism that the pace of privatisation has been far too slow? Here he distinguishes two issues: the pace of privatisation and the methods, the first being linked to the second.

On the speed, he now recognises that one has to choose between the risks of going too slowly and the risks of going too fast. In his opinion, the latter risk should be accepted. So he is thinking of "privatising quite a considerable share of the Polish economy within a couple of years."

The Government is looking at three techniques for speeding up privatisation of large enterprises. "The first would be to issue bonds or coupons that would entitle the holder to buy shares. The second would be to distribute shares of a chosen group of enterprises among the citizens. The third one would be to distribute shares in mutual funds. We are working on the logistics," he explains, "before we commit ourselves to one of these three alternatives."

The Minister complains that there is undue concentration on this method of privatisation, turning large state enterprises into public companies and then distributing their shares. There is a second, which consists of selling or leasing the assets of small state enterprises to private people, including their employees. He wants to speed up privatisation on both fronts.

But surely there is a great deal of pressure for workers' ownership. What role does he see for that? This notion gains a frosty response. "Our privatisation method must," he insists, "not lead to an economy which is very different from the one we know from the West.

None the less, "new companies can be set up as producer co-operatives. Moreover, in selling or leasing assets of smaller enterprises to private people, some preferences will be given to the workers. "Finally, up to 20 per cent of the shares in bigger companies can be sold at a preferential rate to workers, but the value of those preferences should not exceed the annual wage bill," since larger preferences could create extreme inequality.

And what is the role of foreign owners? "Under the proposed regulation on privatisation, buying up to 10 per cent of a given company does not require any permission. Above the 10 per cent there would need to be approval." A problem is asset stripping. "If we adopt a fast pace of privatisation, we would expect low share prices because of the low savings of the population. Should foreign companies be allowed to buy shares at these low prices, or should we adopt a different approach?" Some countries, like Sweden and Thailand, have dual markets, he notes. The Polish Government appears likely to follow them.

The Minister is left grappling with the intricacies of the most ambitious privatisation programme ever attempted – and that hard on the heels of one of the more dramatic stabilisation programmes. One is awed by his determination. That determination is a necessary condition for ultimate success; whether it will prove sufficient is another matter.

In search of parity of esteem for pupils

By Michael Prowse

"99

Michael Prowse on Education

It is time John MacGregor, Britain's Education Secretary, advanced from his shell. Somebody has to address chronic shortcomings in the education system for 16-19 year olds. Consider:

- Only a third of Britain's 16-19 year olds are in full-time education. A drop out rate of about 65 per cent would be unthinkable in most competitor countries, including South Korea.
- The academic/vocational divide remains as deep and corrosive as ever. Teachers, employers, parents and pupils still regard technical and practical studies as inferior – something for those who cannot grasp abstract concepts.
- The minority who stay on after the age of 16 receive an abnormally narrow and hence second-rate education. Most 18 year olds offer only two or three subjects for examination at Advanced (A) level, usually in related fields. Such specialisation would seem absurd abroad.
- High youth wages ensure that the labour market exerts a strong and unhealthy pull on 16 year olds, especially in low skill sectors such as retailing. Little high quality training is available.

Skill levels have always been an important determinant of economic growth. But the relative importance of education is growing. This is because labour is immobile while other factors of production such as technology and financial capital now flow freely between nations.

Changes in the nature of work are also causing a ratcheting up of skill requirements within industry. When this last happened, in the early years of this century, the response was a big extension of secondary education. A similar educational leap forward is required today.

There are equally strong social arguments for higher educational investment. Education liberates individuals: it is the best (often the only) way to break down the barriers of class, race and religion.

The importance of cutting the 65 per cent drop out rate can thus hardly be exaggerated. Yet what has the Government done to improve post-16 opportunities? It has introduced the Advanced Supplementary (AS) exam; and it is lamely exhorting employers to offer more training.

A weaker response is scarcely imaginable. Consider the AS exam. It is designed to take half as long as an A level to complete but to be equally demanding. If you cannot pass an A level, you will not be able to pass an AS exam. The new qualification thus does nothing to widen educational opportunities. This matters when only 14 per cent of the population pass two or more A levels.

In practice, the AS exam has not even significantly broadened the curriculum for bright students. This is because most schools find it virtually impossible to timetable both AS and A levels in the same subjects. In any case the historical prestige of A levels makes them the preferred choice for most students and parents. The upshot is that the AS exam is largely ignored.

The training outlook is equally unpromising. In the absence of the right traditions and institutions (such as powerful chambers of commerce), it is highly improbable that many UK employers will emulate their German counterparts and provide high-grade apprenticeships. In any case the vocational qualifications being accredited in the UK are typically narrower and less demanding than those on the Continent.

So what reforms are needed? As a short-run palliative, Mr MacGregor could abolish A levels and announce that five or six AS levels should be the standard qualification for higher education. If he additionally stipulated that all students should take AS maths and English, he would have gone some way towards creating a broad and balanced academic sixth form curriculum.

But such a measure would only scrape the surface of Britain's problems. It would do nothing for the 75 per cent of the age group for whom A level type exams are inappropriate. It would not end the academic/vocational divide. And it would not reduce the attractions of the youth labour market.

A much more ambitious restructuring of 16-19 education is required. Mr MacGregor's goal should be to create a qualification that provides a natural progression from the National Curriculum for 5-16 year olds. It should include a variety of academic, practical and work or community based courses. Its aim should not be to make everybody do the same things (that would be absurd), but to ensure that different types of student enjoy parity of esteem and that learning opportunities exist for the whole spectrum of abilities and tastes.

As the Institute for Public Policy Research recently argued, such a reform of the exam system would need to be backed by vigorous measures to reduce the attractions of youth employment. The first step could be a legislative requirement for study day release.

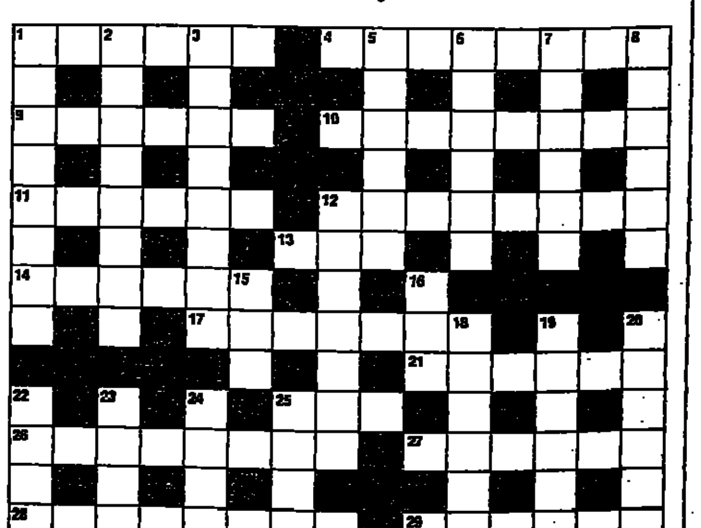
A 65 per cent school drop out rate is a terrible economic and social handicap. Overseas experience shows that it is also wholly unnecessary. But until Mr MacGregor recognises an elementary truth – that education must be tailored to the needs of the average pupil – post-16 study in the UK will remain a deviant form of youth behaviour.

Justinian is on holiday until September.

JOTTER PAD

CROSSWORD

No.7,290 Set by DANTE



ACROSS

1 He writes of gold going to hammer-thrower (6)
4 Do crews of these ships get three bank holidays? (8)
9 Left half a beer or stout (6)
10 Study department – French, of course (8)
11 Even barren ground does, if one fights it hard enough (6)
12 Raised objections and was violently murdered (8)
13 A company's plant (3)
14 Propose at home to nurse (6)
17 You may be surprised if it is arched (7)
21 You'll never score with this girl (6)
25 It's always used by poets (3)
26 Wrong oil pressures less certain to aid racing cars' performance (8)
27 A pile of snow – like an ice-floe? (6)
28 A wave of reaction (8)
29 Officer found on the staff (6)
30 A rapidly replaced stone worker (8)
31 Many agree it's new and in short supply (6)

DOWN

1 It really is a breathtaking experience (8)
2 Most rent reform produces agonies (8)
3 Spoilt Dover sole – cooked too much (8)
5 Island colonist (6)
6 Free delivery (6)
7 One cannot recollect having a bad one (6)
8 Firm rearranged dates before the end of May (6)
12 Big drinks bring people to court (7)
15 Some do it for a living, strange as it may sound (3)
16 He may get beaten if he appears again (3)
18 A hostile measure (3-5)
19 Recommending a distressed diva to continue working? (8)
20 An occasion of exemplary significance (8)
22 Name one dreadfully blasé female (6)
23 It comes to the fore in the boot and shoe industry (6)
24 What the champagne did when little Florence got married? (6)
25 It enables a writer to get rid of unwanted characters (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 28.

FINANCIAL TIMES SURVEY

FINANCIAL AND PROFESSIONAL SERVICES

THE NORTH-WEST

SECTION III

Monday July 16 1990

Though financial and professional services should be feeling the draught of economic downturn, there are few signs of trouble in north-west England, where professionals are building a formidable industry among privately-owned businesses, as Ian Hamilton Fazey reports

Advice on the doorstep

A CLUE as to why north-west England's financial and professional services sector appears to be doing well at a time when its London counterpart is suffering from economic downturn comes from a single statistic.

It is the number of privately-owned companies being pursued by the 15-strong corporate finance team of Henry Cooke, the Manchester-based stockbroking and financial services group. Mr David Adams, the managing director, says there are about 2,000 of them on Henry Cooke's list.

These are not Colorolls or Coats Viyellas or other such examples of corporate doom or glory. Each year, most of them turn over about £10m, plus or minus £5m, while pretax profits are typically in the £1m to £2m bracket.

Some want capital for organic growth, some want to buy similarly-sized businesses, some want to offer themselves for sale, a small few want to go public, while many do not know what they want but are looking for help in finding out.

All of the other financial services professionals in the region – whether in stockbroking, accountancy, commercial law, insurance, banking and venture and development capital – have similar lists to Cooke's. There is some overlap, but their market clearly runs into thousands of potential corporate customers.

To London professionals such potential clients are too small to service, yet increasing numbers of them are looking for professional help. Since London can offer them little – and at a junior level of adviser and a lot of cost – the new regional professionals are finding a ready market.

Often the type of service on offer is not easily defined. An example in Manchester is Rickitt Mitchell, which functions as a financial services jobbing house. Yet eight people are currently generating about £1.25m in fees each year.

The business adapts the services it offers to the market of the moment: when the climate was right for management buyouts, these were its forte; demand continues strongly for advice on getting development or venture capital, so it gives it, as well as introductions to a local fund it backs with Schroder Ventures; at present it is also doing well out of private company sales.

However, another side to its business illustrates an important general point. Rickitt Mitchell has developed a profitable line in publishing company offer documents and circulars to shareholders because it can do them at a fraction of the cost of using London professionals.

Mr Peter Rickitt estimates that with lower office overheads and immediate access to a local network of all the professionals who might be needed, the north-west can be two-thirds cheaper than London.

Mr Paul Lee, of Addleshaw Sons & Latham, Manchester's largest commercial law firm, says: "There is an increasing fall-out of people and work from London. Moreover, clients are getting used to delivery on the doorstep and not having to put up with the hassle of getting to the City."

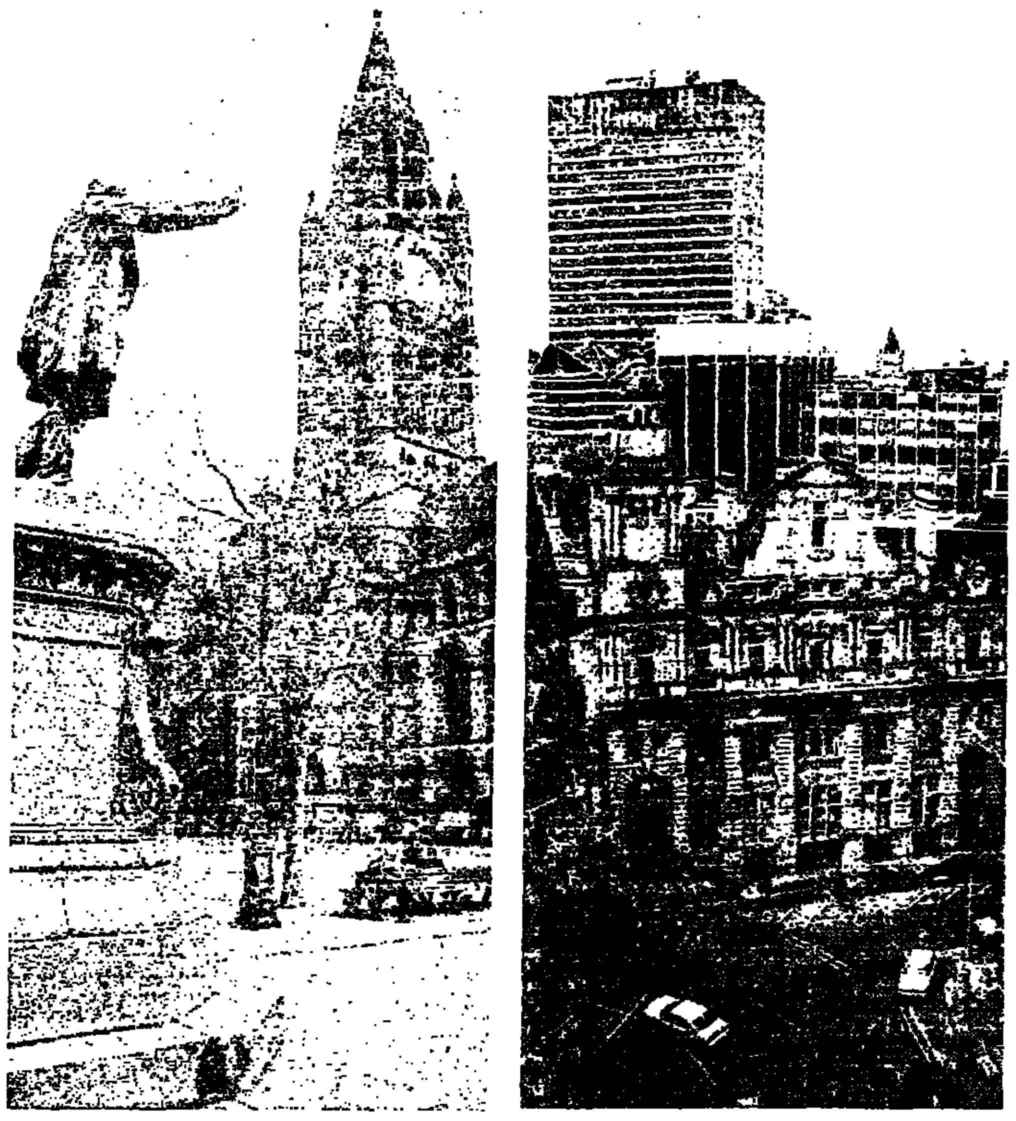
According to Mr Peter Folkman, of North of England Ventures, "the growth of financial services outside London is about import substitution. The region used to have to import the expertise it needed. Now there is a highly competitive, cheaper local supply with much better local knowledge."

Mr Mike Davis now runs Ernst & Young's corporate finance advisory team in Manchester, but has a national claim to fame from 10 years ago, when he moved from London to develop the first small business unit within a large accountancy firm – Arthur Young, at the time – an idea which was soon copied by most competitors.

He also chairs the board of Manchester's Enterprise Agency and has therefore learned about the dynamics of growing businesses at first hand.

"Ten years ago many deals we do today could not have happened because the mechanisms were not there," he says. "Two factors make it happen – putting expertise and finance together. If you can do it on your doorstep, it will happen or you can make it happen.

"We have been able to prove to the businessman that it is in his interest to get the deal done locally. We can take him round to see everyone he needs within a few hours because we are all within walking distance of each other. The more we all do, the more we will do. We have discovered mechanisms just by doing things which have then made deals more successful in the future."



The Victorian grandeur of Manchester Town Hall contrasts sharply with the mushrooming of new buildings among the old in the city's financial district just a few hundred yards away

Three trends appear to be keeping things buoyant. First, management buyouts are continuing in the regions. Many are divestments of peripheral businesses by large groups. Since most are well under £10m, they do not figure in London-compiled "national" statistics which look only at deals above that threshold.

A second trend is cross-border interest from all over the world in buying regionally-based companies with growth potential. Regional offices of large firms of accountants win both ways here through combining local knowledge with their own international networks to offer businesses for sale widely.

Finally, many founding entrepreneurs now in their 50s want to reduce involvement and pass on businesses to the next generation of management. This is fuelling many different types of transaction, including buyouts, buy-ins, mergers and sales.

For the regional market in professional services, size is the determining factor, but even well-capitalised businesses worth tens of millions of pounds have not been big enough to get the level of personal attention that they want at senior levels in London. This begs another question: in the past, did the smaller companies go to London for help at all?

Probably not. Mr Davis says that their auditor was usually the first and only independent adviser they used. "Our greatest competition in professional and financial services for medium-sized and smaller companies remains the do-it-yourselfer," he says.

The choice, however, is now not only wide but is among an enlarging group of professionals who have proved themselves. The economic significance is that they have almost always done better for their clients than the clients could have done themselves, which means generally that they have added value to the region's stock of businesses.

"In a region which has such a large stock of private businesses, there is always some sort of transaction to be done, whether things are going well or badly," says Mr Adams of Henry Cooke.

Mr Davis says another factor is that the banks have become better at highlighting problems earlier, so that sales, management buyouts or reconstructions can take place before it becomes too late and a company is forced into receivership.

This, in turn, has meant that centrally generated national panic among the clearing banks at worsening economic indicators and falling property values in the south has not, as 10 years ago, been automatically translated into northern closures as overdrafts everywhere have been squeezed.

In spite of a 10 per cent year-on-year drop in job advertisements in the Manchester Evening News total volume of advertising is holding up, says Mr Michael Unger, the editor. Most believe this means that companies are keeping staff numbers down while still trading vigorously as they wait and see which way the national economy is going to turn.

Whatever happens, businesses now have access to advice and help as never before. Because the market is a local one and not a niche in which London professionals are dabbling from afar, all the advisers have a stake. Mutual self-interest could therefore be a powerful ally in protecting the regional economy.

IN THIS SURVEY

Editorial production
Gabriel Bowman

Ian Hamilton Fazey, Northern Correspondent, on the prospects for the region's venture capitalists

Smaller buyouts are still in fashion

IT IS a symptom of rapidly developing maturity that north-west England's venture capitalists can still claim to be doing well in spite of the changing pattern of the British economy. The sector has grown up enough to believe it can adapt and survive, and that must be some sort of success.

Five years ago, venture capital looked a much sounder business to be in than now: the economy was on the up and so was the stock market, providing an obvious exit route – flotation – for venture capitalists to realise their investments in young, thrusting companies.

But five years ago the industry was concentrated in London. Most of the regional sources of funds in the accompanying table did not even exist. Players in the north-west's emergent regional industry included the omnipresent and still dominant 3i, with Lancashire Enterprises, Rainford Venture Capital and – through Lazards, its parent – the Development Capital Group all trying to make an impact.

The modest North West [illegible] Fund was also a [illegible] in a state of transi[illegible] from its origins in the British Technology Group, which had itself evolved from the old National Enterprise Board.

Shortage of venture capital in the regions was compounded by lack of local structure. Ironically, northern savings were being invested in London funds by pension managers who had nowhere else to turn for onward investment in southern ventures.

The fact that there are now at least 12 regionally-based or regionally aware funds in the north-west shows how the gap has been filled. Similar pressures have forced the growth of a not-dissimilar structure in Yorkshire and Humberside.

Changing national economic conditions are now putting these structures to the test.

"We are still being offered a lot of deals, so I don't think the world has stopped, but the pattern is changing," says Mr Peter Folkman, who left 3i last year to set up North of England Venture Managers in Manchester.

"The banks are panicking over the debts of some of their corporate clients and pulling in their horns. We are getting back to people being forced to sell their businesses."

He says that, although the boom in big management buyouts – when large conglomerates or groups were willing to sell to the managers who ran subsidiaries so as to spread the groups' risks – is over, the smaller buyouts are still there.

"Most are now mainly distress sales. We are going back to the type of buyout we saw in the 1979-82 period, when the managements were certain they could do better than the owners and save the business," Mr Folkman says.

This helps explain why management buyouts still take place in the north of England at sub-£10m levels, while national activity at larger values has all but dried up.

Moreover, the smaller sums involved are within the compass of generally more modestly endowed regional venture capital funds, which means that good deals can obtain equity backing from them at a time when the banks are reluctant to lend.

Mr Peter Rickitt, of Rickitt Mitchell, the Manchester corporate finance boutique, says that there has been a marked change in the last six months. "Wherever we turn, we are finding pre-receiverships. We expect to see a lot more before times get better. We are helping a lot of owners to sell their businesses."

Successful owners are also selling – so as to avoid the UK's impending rise in capital gains tax to a rate of 50 per cent.

Mr Rickitt says that while many sales are for cash to foreign companies wanting a pre-1992 toehold in Britain, managements or indigenous buyers needing venture capital backing can now get it easily if the business is a good one or has better prospects if its ownership or management changes.

Structure is again proving important: Rickitt Mitchell is joint backer with Schroder Ventures of Mr Folkman's fund, so his clients do not have to go cold-calling for money, an important advantage over "unknown" supplicants.

Mr Bill Hopkins is chairman of the March Consulting Group, which has a venture capital kitty backed by £20m from British Gas's pension fund. Like Mr Folkman's, it can operate nationally but tends to deal principally in the north-west and north.

"There is a dearth of bigger deals to be done," he says. "Those in the £4m to £6m range don't seem to be bubbling at the moment, but there's plenty going on at lower levels."

March invests at a rate of around £5m a year, spread over about 10 deals. "Opportunities are arising out of disaster areas," Mr Hopkins says. "A lot of people are coming to us with property-related situations. The clearers have been told not to touch anything to do with property, so a lot of people are running scared."

The biggest players in the region, however, are 3i and County NatWest Ventures. An indication of relative buoyancy in their market is that County, equipped now with greater local decision-making powers since the merchant bank's calamities of last year, has increased its Manchester venture capital team to six executives.

County's minimum investment is £500,000. Mr John Moran, director of the Manchester operations, says that the increasingly strong local structure is enabling big deals to syndicated in the region, further strengthening the self-sufficiency.

Recent typical deals have included a management buy-in at Babcock Gears and Wires – now renamed B & F Carter – in Bolton, the £3.2m management buyout of Wickland Westcott, a human relations consultancy in Wilmslow, and the £7m buyout of Metrotect, a pipeline coatings company in Cleckheaton, West Yorkshire.

Indeed, the latter was syndicated by 3i and the Manchester office of Ernst & Young played a central role in the deal, so the region was able to demonstrate its ability to fend for itself and pass deals on.

Meanwhile, Development Capital Group is planning to expand money available in the region. In the mid-1980s it started to develop five regional funds by investing half of their money in small quoted companies in each region – to provide liquidity – while putting the rest into unquoted businesses.

Today, its north-west unquoted investments are valued at £7m, as against £2.2m of shares in quoted companies. Its North West Unit Trust, designed to give local authority pension funds a vehicle for local venture capitalism, is valued at £4m and giving its investors a return of 25 per cent a year.

Against this optimism must be set the loss of the Merseyside Enterprise Board and Greater Manchester Economic Development, both of them inspired by their eponymous but now abolished metropolitan county councils.

They were designed to redress the former imbalance of British venture capital towards the south-east, but recently failed to obtain the unanimous support needed to continue from the 15, often squabbling, district councils which now run the two conurbations.

Lancashire Enterprises, which recently privatised itself successfully from its unitary and more single-minded county council, presents a telling contrast. But since the private sector seems to have created a stable venture capital industry in the region to correct the old skew to London, does their demise really matter?

VENTURE CAPITAL SOURCES WITH LOCAL DECISION-MAKING POWERS

LANCASHIRE		
Lancashire Enterprises	R Bamford	0772 735 821
LIVERPOOL		
CLM Unit Trust	K Abbott	051-236 0221
MANCHESTER		
3i	C Richardson	061-833 9511
Charterhouse Development Capital	S Nellies	061-236 1100
County NatWest Ventures	J Moran	061-832 8827
Development Capital Group	R Lee	061-832 7928
Edington	G D Edwards	061-834 2535
March Investment Fund	R S Marshall	061-872 3676
Mynshul Bank	R Hoyle	061-236 8697
Murray Johnstone	J Diggines	061-236 2288
North of England Venture Managers	P Folkman	061-236 6600
North West Regional Fund	C Edwards	061-834 2332
ST HELENS		
Rainford Venture Capital	D Johnstone	0744 37 227
NATIONAL WITH REGIONAL INTEREST		
British Coal Enterprise	A Hewitt	0773 531 313
British Steel (Industry)	V Smith	0742 700 933

Martin Regan looks at the retail scene

More banks than brass

AS RETAIL banking in the UK has become more standardised, regional characteristics have been obliterated. However, in the north-west, traces of the old banking networks remain.

This is reflected both in the market dominance of National Westminster Bank and Barclays Bank and in the disproportionate strength of the Royal Bank of Scotland and the Trustee Savings Bank.

The NatWest owes much of its regional strength to the old District Bank of Manchester, while Liverpool's Martins' Bank, bought by the Bank of Liverpool and the Lancashire and Yorkshire Bank for its clearing facilities, was gobbled up by Barclays in the late 1960s to form the basis of its north-west network.

A precise comparison of the banks' relative strength in the region is virtually impossible. In banking terms, the north-west and its constituent parts have only a nodding acquaintance with real geographic boundaries.

Barclays and NatWest have widely differing concepts of Greater Manchester; the Royal Bank of Scotland's northern region currently takes in Birmingham, while the Midland Bank's Manchester area excludes Stockport.

Over the past two years, the major banks have reorganised regionally, usually by slicing a tier off the administrative cake.

In the case of Barclays and NatWest this has given considerable autonomy to north-west based regional directors. With the Midland and Lloyds banks, regional executive control has shifted from Manchester to Leeds, though area directors covering smaller parts of the region have been introduced.

Mr Edward McGonagle, NatWest's Merseyside regional director, believes that the smaller self-contained regional units allow a more efficient response to changes in local customer demand.

"There is an increased speed of decision-making and decisions are better informed. I think you can overestimate local knowledge, but you can also underestimate it."

NatWest's Merseyside region, administered from Liverpool, has over 100 branches and employs 2,000. Barclays' Liverpool region, which takes in the Isle of Man, parts of North Wales and West Lancashire, has around 2,700 staff and 150 branches.

Around Manchester Barclays and NatWest each have roughly 140 branches. However, Barclays' region, extending into Cheshire and Lancashire, is much larger. NatWest covers most of Lancashire through its Preston office.

Mr Kenneth Atkinson, Barclays Manchester director, admits that within his area NatWest has the market lead.

"We are both relics from the old Manchester and Liverpool banks and it really is a two-horse race for market leadership. The TSB is strong, but we don't really worry about them," he says.

The TSB's presence is difficult to evaluate. Its western region, based in Manchester, has around 450 branches, but this covers all of the north, Wales and parts of the Midlands.

The Royal Bank of Scotland also has a significant north-west operation, with over half of its English branches in the region.

Its Manchester-based northern region extends from the Scottish border to Birmingham and has 231 branches, employing some 3,700 staff.

This strong representation follows its merger in 1985 with Williams and Glyn's, which contained the formidable northern branch network of Manchester's Williams Deacon's Bank.

Both the Midland Bank and Lloyds are smaller players, the former with around 120 branches, the latter with slightly fewer.

Others include National GiroBank at Bootle, with over 4,000 staff, and the tiny Manchester-based Co-operative Bank which has just nine of its 110 branches in the region.

Despite its size, the Co-op has 1.5m customer accounts and banks for 90 local authorities, giving it a 20 per cent share of that market.

The presence of banking support functions in the region is substantial. Barclays has a BarclayCard centre at Wavertree Technology Park, Liverpool, a data processing operation at Wythenshawe, Manchester and a huge information services and systems development division at Radbrooke Hall, Cheshire. Combined, these facilities employ a further 3,500.

The Midland Bank has a computer processing centre at Bootle, while the NatWest has a computer bureau at Salford. The Co-op Bank has moved all its back office operations to Skelmersdale, Lancashire. It is now the town's biggest employer with a workforce of over 600.

Corporate and international finance facilities are concentrated in Manchester, though specialist units have been set up in Liverpool.

In addition to their subsidiary merchant banks, Barclays, Lloyds, the Midland, NatWest and the Royal Bank of Scotland all have regional corporate or international finance sections in Manchester. The national sterling payments section of NatWest is also based in the city.

The feeling remains that the north-west is overbanked, at least in retail terms. In the major cities competition for customers is exceptionally keen and one result of regional reorganisation may well be a stern reappraisal of branch numbers.

INSURANCE

Roots in the region

THERE IS a strong sense of place about the insurance industry in the north-west. Nationally-known firms that have grown up in the region have retained a sentimental attachment to their birthplaces.

Take Royal Insurance, which is centred on Liverpool. Its headquarters operations may be largely based in the south, but the company is proud of its local connections – it employs 4,000 people in the city, and says it has no plans to move its centre of operations.

In Manchester, the Co-operative Insurance Society, another national name, has also put down deep roots. The city is the home of the co-operative movement, it says, and it does not expect to move out – unlike Refuge Assurance, which left the Manchester city centre three years ago for nearby Wilmslow.

The CIS, founded in 1867, is located close to the Co-operative Bank, the Co-operative Wholesale Society and the Co-operative Retail Services – a proximity which it has no intention of breaking.

"It is an excellent place to be in terms of employment," says the Co-op, which employs 2,300 people in the city centre. "You can call on a very wide pool of people in the region, whether professionals or clerical staff."

Refuge may have moved out of Manchester, but has put down new roots in 19-acre of parkland outside Wilmslow.

Equally rooted is Swinton, the nationwide chain of insurance brokers which pioneered selling motor insurance through branches. The name is from the Manchester suburb where, in 1957, its founder, Mr Ken Scowcroft, began his business. The company now employs 500 at its head office in Manchester.

Behind these apparently immovable connections, things have been changing fast in the insurance community – and nowhere more so than at Swinton. In May this year Sun Alliance, which has held a 30 per cent stake in the company for the past two years, took its holding to 49 per cent and declared an intention of taking full control in due course.

As a result, the independence of one of the region's best-known family companies could soon be over. The Sun's purchase in May put a worth of £168m on the company, valuing the remaining 51 per cent of the shares owned by the family at £86m.

Not that the move has come as a surprise to the Scowcroft family (son Brian and daughter Janet handle the day-to-day operations of the company, under the chairmanship of their father Ken). The decision to take in Sun met two objectives: the need for capital to grow rapidly into a national chain and to forge a connection with a life company whose products could be sold to existing Swinton customers. Three years ago, the company said it intended to have 500 branches in the UK by 1990. It already has 670, and is now aiming for 750.

The region's insurance companies are also changing.

Take the Co-op. After nearly a century and a quarter as a life assurer, it is extending its range in recognition of the more overt competition with banks and building societies, and the increasing sophistication of its customers. Its new product range includes unit trusts, pensions and mortgages.

One thing that has not changed, though, is the way the Co-op makes contact with its customers. It retains its "home service" approach, marketing through agents.

"We still feel that direct selling offers the greatest potential," the Co-op says. Some things may change but, seen from the Co-op's [illegible] in central Manch[illegible] things will never change a[illegible]

Richard Waters

NORTH-WEST FINANCIAL & PROFESSIONAL SERVICES 3

Martin Regan reports on the significant growth of merchant and international banking in the region

An end to the Hicksville image as skills deepen

THE TRADITIONAL belief that provincial merchant banking is branch banking by another name is still held by many businessmen in the north-west.

However, over the past few years the demands made on the region's merchant banking sector, based mainly in Manchester, have become increasingly sophisticated.

Last year, during the contested takeover of Piccadilly Radio by the Miss World group, it was the Manchester office of Barclays de Zoete Wedd which handled Piccadilly's complex and hugely entertaining attempt to thwart entrepreneur Owen Oyston.

Significantly, the quality of professional advice from Manchester was seen to be every bit as good as anything from the City of London.

If "coming of age" is too extravagant a phrase for this outcome, it should be noted that almost all Manchester's other financial professionals regularly cite it as a key example of the city's professional clout.

The breadth of merchant banking in Manchester and the growth of its main players have created its own momentum, but it has been the introduction of regional directors and the regional re-organisation of the parent clearing banks which has done most to help lose the "Hicksville" image.

BZW, together with County NatWest and N M Rothschild and Sons, dominate Manchester's merchant banking scene. Over the past few years they have increased staff levels and the range of services on offer.

All three now offer banking, corporate finance and development capital services – handled by local offices. Rothschild also runs a treasury service, funding its own loan book, while Hill Samuel is one of the few with a retail banking operation. At Rothschild, the number of employees has risen 25 per cent in the past two years.

Mr Magnus Mowat, director of BZW's Manchester office (opened six years ago) says the growth has been transaction-led and has mainly occurred in the past two or three years.

"There is a danger with counting deals to measure growth, but in the last year or so we handled five flotations; in the previous five years we handled one," he says.

He does not accept that providing the same level of expertise as the City necessarily means providing the same service, arguing that distinct regional differences do exist.

Victor Blank, Mancunian chief executive of Charterhouse

"We tend to get involved at a much earlier stage. In the south-east, businesses put a plan on the desk and go from there. Here, we are often called out when there is just an idea."

The boundaries separating the advice function from transactions are clear, but the differences between development and venture finance are sufficiently vague for companies such as Investors in Industry to be regarded as an integral part of the region's merchant banking scene.

With offices in both Liverpool and Manchester, 3i is one of the main sources of expansion and development capital in the region. Over the past five years it has invested some £90m in north-west businesses, half of that in the last two years.

Earlier this year, 3i chose Manchester as the location for one of its four "large deal units" being set up in the provinces. This reflects the capacity of locally-based investors and intermediaries to fund deals of £10m upwards.

Mr Charles Richardson, head of the Manchester office, says: "We have got to the stage where we can syndicate deals of £10m locally, but above that we probably need to go elsewhere."

Mr John Moran, director of County NatWest's Manchester office, does not regard this as a weakness.

"Why should it be, as we all know where to go for the money? The £250m funding for the Gateshead Metro Centre was handled out of Manchester. The important thing is to have the deal originated. All the merchant banks are linked up to a tremendous financial network and there is a lot of co-operation."

County, with a staff of 18, has been in the city since 1969, evolving from one of Manchester's oldest district banks. Mr Moran claims the prospects for growth in all the bank's activities have never been stronger.

It is a confidence shared by Mr Victor Blank, the Mancunian chief executive of Charterhouse, a niche player in the north-west merchant banking scene – though with a strong power base in Liverpool through brokers Charterhouse Tilney.

"Financial services go where the economy is buoyant. I think people now recognise that for certain services it is much better to be at ground level."

Mr Moran says Manchester's financial base now has sufficient depth to support every merchant banking function, including new issues. He also believes the region's economy has the volume of expanding businesses to provide the workload.

"The InterCity trains are still full of people going down to London for advice. So the deals are certainly here," he says.

"There is absolutely no need here for businesses to look to London. We have advisory skills, broking skills and funding skills. Whichever way you look at it, there is a lot of talent in Manchester."

Manchester count of foreign banks now approaching 30

THE STRONG representation of foreign banks in Manchester has arisen from both historical and cultural factors. The legacy of two ports and a manufacturing base fed by imported raw materials is an international finance infrastructure which can now be regarded as an economic asset.

Originally, this infrastructure was weighted towards Asia, the Middle East and the Commonwealth; those areas which once supplied the materials for northern factories – but it has now broadened with the arrival of European and south-east Asian banks.

Manchester's foreign banks provide a surprising diversity of services: from the international transactions in the knitwear sector, undertaken by the Equatorial Bank, to the large venture deals favoured by the Japanese.

Not all foreign banks in the city are concerned solely with international services. Many, like the Bank Hapoalim, are there to chase northern business. The Hapoalim has seen the volume of business handled by its Manchester office rise by over 500 per cent since 1987.

Depending on how one compiles the figures, there are about 28 foreign-owned banks in Manchester. The figure sounds more impressive than it is. Anecdotal evidence suggests that total employment within the city's foreign banks does not exceed 350.

Many provide a retail service to the region's large ethnic population, while others are simply post boxes for London operations, taking advantage of lower overheads.

However, those which arrived on the back of expatriate communities have contributed greatly to the breadth of services available. The National Bank of Pakistan, the Bank of India and others, provide import and export documentation services for trade with their home countries.

Several banks offer the full range of international and trade finance services; these, when combined with the international divisions of the clearing banks, provide the foundations upon which the city's role as a European provincial banking centre can be built.

The Hong Kong and the Shanghai Banking Corporation, which arrived in the city 15 years ago, is the largest such bank, employing over 80 staff. It has focused on providing trade finance to UK corporates, particularly those involved in the textile trade.

The Manchester office has also built up its treasury services, notably foreign exchange deals. Most textile trade is conducted in US dollars and businesses need to hedge against dollar exposure.

Over £1bn a year of foreign exchange transactions are handled from Manchester, which now has its own treasury manager. There are also facilities for traded options and interest rate swaps, though arranging trade finance remains the staple business.

Mr Paul Leech, deputy manager, says regional representation is more than simply putting a branch in the provinces. "There are distinct differences between our Manchester and London offices. We have a relatively small number of clients which are relationship based. In London it is very much a transactionally based operation," he says.

"I think the market in the north is large enough to cater for more international banks and we are seeing greater interest in the city. Those who are not here are like moths around a light; eventually they will land."

Credit Lyonnais will be the next to land, opening an office later this month. The past three years have seen six new arrivals.

Recent newcomers include the Hungarian International Bank, Deutsche Bank, Westpac General Finance and Svenska International.

The Japanese have also established a toehold with the Sanwa Bank and the Fuji Bank both opening recently. The Sanwa has already provided revolving credit facilities for a £100m office development at Salford Quays and is thought to be ready partially to fund Manchester's Great Bridgewater Street initiative, which includes a new international concert hall for the Halle Orchestra.

In a sense, the Japanese, tightly controlled from London and with little autonomy, have taken over the role formerly carried out by US banks – two of which have recently pulled out of the city.

Despite the strong presence of the big European players such as Deutsche Bank, the Banque Nationale de Paris and Algemene Bank Nederland, there are still opportunities for the niche operators in the European marketplace.

The Hungarian International Bank opened its doors in 1988 and with a staff of just four has built up a range of commercial services. These include foreign exchange deals, commercial lending and documentary credit facilities.

Mr Peter Jamison, manager, says that although servicing Anglo-Hungarian trade is part of the business, it is only a minor part. The focus is on providing mainstream international banking services.

Svenska International is the latest arrival in the city. The bank is pitching for the business of the larger private and the smaller quoted UK companies. It sees itself as competing with the clearing banks.

Mr Tony Green, area manager, says Svenska examined the region in some detail before opening and concluded that along the M62, from Liverpool to Hull, there was a sufficient mass of businesses in the £10m-£25m turnover bracket to make the move worthwhile.

"There is a recognition that the UK is an important part of the European Community and that the north is a very important part of the UK," he says.

Manchester Business School's International Banking Centre

David Waller finds that in accountancy the picture is far from bleak

All creatures great and small

RECENT FIGURES for the UK's top 20 accountancy firms show that the tremendous growth associated with the latter half of the 1980s has not come to a halt with the advent of high interest rates, creeping inflation, a dubious outlook for the economy and the prospect of a Labour Government.

The figures for 1989-90 show that all the big six firms managed to shrug off the effects of mega-mergers and keep up the rate of fee-growth they achieved throughout the previous half-decade – that is, somewhere between 20 and 40 per cent. The picture was gloomier for the medium-sized firms, but overall the picture was far from bleak.

The Big Six have kept up their rate of fee-growth

Much of the growth for the firms as a whole must have been due to the performance of the thousands of accountants based in the north-west. This is one of the most important geographical markets in the UK, where local businessmen and the local arms of multinational businesses are well served by accountancy firms of every shape and size.

Many of the Big Six international firms have been here for decades, and indeed the attractions of the region were felt as far back as 1904 when Price Waterhouse opened its first office outside London, in Liverpool, followed shortly afterwards by one in Manchester. National firms – such as Spicer & Oppenheim and Grant Thornton – are well represented in the area and beneath them are a number of boutiques and strictly regional firms.

The rash of mergers over the last year has created three firms with a staff of 600-700 in the region, with Coopers & Lybrand Deloitte marginally ahead of the field with some 690 employees. KPMG Peat Marwick McLintock and Ernst & Young come not too far behind, while Price Waterhouse has some 350 people in Manchester and Liverpool and Touche Ross about 270. Arthur Andersen has about 130, eclipsed by Spicers which employs some 310 while Grant Thornton has some 280 in the two big cities.

Last week Spicer and Touche Ross also announced plans to merge in the UK. The new firm – to be known simply as Touche Ross – will displace Arthur Andersen as the UK's fifth largest (and the north-west's No 4) and will start trading under its new name next month.

Mr John Jeffries, senior regional partner of Coopers & Lybrand Deloitte, provides evidence of the resilience of the region to economic downturn: in the year to April, fees for the region (which for this newly merged firm takes in offices in Liverpool, Manchester and Blackburn) went up by 32 per cent to £33.3m while fees for the UK firm as a whole rose by 28 per cent (to £531m).

"People are hanging fire before investing in computer systems"

Mr Jeffries says that there has been no significant slackening off in work over recent months, conceding that this could be because the north-west's economy is not suffering as badly as the south-east's. As elsewhere in the UK, there has been a discernible upturn in the amount of work being done by the firms' insolvency departments. As yet, this is not enough to suggest an imminent collapse in all the other sorts of work that the firms do, but it is an ominous sign.

Mr Bill McLaughlin, deputy senior partner for the region at Peat Marwick (which generated £26.6m in fees in the north-west for the year to September 1989), is marginally less sanguine. He has noted a flattening off in demand for consultancy work: "people are hanging fire before investing in new [computer] systems. The practice is simply not growing at the rate it was 12 months ago when we were drawing up out forward plans. This side of the practice has grown at more than 25 per cent a year in recent years but we're not going to make that this year."

This he puts down to high interest rates, which he says have had no dampening effect on the other areas of firm's business: for example, corporate finance and tax consultancy.

There is much speculation in the region about the likely consequences of the Coopers Deloitte link-up – as there will be over the Spicer and Touche Ross alliance. Will this mean a shake-up of clients in the area? Will there be huge staff defections? It is too early to say – but it comes as no surprise that the official line from Coopers Deloitte is that the merger is going far better than expected.

How can deal-makers and auditors function under the same roof?

Earlier in the year, four accountants defected from the corporate finance division of Spicer's Manchester offer to form the McInnes partnership, a boutique operation specialising in giving corporate finance advice to privately-owned businesses in the region.

The firm takes the line that the demerger – effective from the beginning of February – was driven by a "mutual recognition of the increasing conflict of interest and other constraints associated with operating corporate finance activities from within an accounting practice."

This is a highly unusual argument to hear from the entrepreneurial accountants who populate the UK's accountancy firms, but it is one that many outsiders – including clients – would probably endorse. How can firms throw themselves into the rough-and-tumble world of corporate finance and preserve the independence required of auditors? Given that deal-makers are temperamentally different from auditors, how do they manage to function from under the same roof?

The defection of the four corporate financiers is a sort of "unbundling" exercise: there are bound to be more of these around the UK as entrepreneurial accountants find it difficult to operate in the traditional professional environment.

Advertising and PR success is not being flaunted. **Robert Waterhouse** investigates

Bottom line preferred to shop-front

ADVERTISING, PR, marketing and design are not industries normally accused of lying low. For its own reasons, Manchester and the north-west has cultivated a scene which prefers to net bottom-line business rather than open glossy shop-fronts. The soft sell can mean hard cash, but financial services organisations competing for regional and national exposure are beginning to show fitful frustration at the region's inscrutable publicists.

Historically, Manchester became a major advertising centre, by far the biggest in the UK outside London, from looking after retail and mail order. It was not renowned for creativity, nor did the boys from the Smoke who spotted easy killings on the fast line from Euston always settle in well. Manchester's latterday moghuls – Bowden, Dyble & Hayes; J Walter Thompson; Stowe, Bowden, Wilson – all have national or international connections but come from strong local stock.

The PR outfits most-often named, such companies as Staniforth Williams, Greenwood Tighe and City Press Services, tend to be even more strictly home-grown. They know their markets and stick with their clients, who tend to stick with them. It is very satisfying, unless you are a business bursting to make an impact in an area of increasing competition like, say, legal services.

The problem is exaggerated by the region's press – or lack of it. Manchester is the only metropolis in Britain without its own morning business paper since The Guardian transferred its allegiance to London. North West Times, attempting to fill the void, did not survive its launch period of autumn 1988. The Liverpool Daily Post's circulation is restricted mainly to Merseyside and North Wales. Advertising-led business monthlies are not widely regarded as much of a substitute.

Because of the absence in Manchester of a genuine financial press, there is also a dearth of hardened financial journalists, the City types who bolster London's financial PR agencies. Equally, because Manchester has little in the way of regional government or devolved government departments, there is no career structure for information and press officers in the public services.

Where Edinburgh has 29 journalists working in the Scottish Information Office, Belfast has 19 at the Northern Ireland Information Service and the Northern Ireland Office, and Cardiff 23 between the Welsh Office and the Welsh Development Agency, there are just five journalists in Manchester at the Central Office of Information, whose remit is to cover the whole north-west, including Cumbria. With a complement of 11, British Nuclear Fuels, headquartered in Warrington, is the major public sector employer of journalists in the region.

Comparisons with Scotland are telling. The north-west has a bigger population, more people in work and a larger share of the UK's GDP than the whole of Scotland. Manchester Airport handles 2m more passengers a year than Scotland's airports put together. The north-west's universities process more graduates. Yet the intellectual buzz is coming from north of the border.

Last year the Planning Exchange, development information specialists, branched out from their Glasgow head office to start a Manchester operation. Next January Insider Publications, proprietors of the successful Edinburgh monthly Scottish Business Insider, are set to launch a parallel publication in Manchester. Mr Alastair Balfour, the magazine's editor, says that the company researched several English regions: Manchester and the north-west stood out as the area with high activity but low coverage.

Scottish Business Insider specialises in providing full details of the deals carried out by Scotland's financial community. The magazine's June issue lists 101 Scottish deals completed during the first quarter of 1990 showing company name, type, price, advisers and investors. The majority of these took place in Scotland with Scots advisers and investors, though others were in England or further afield. This, according to some observers, is just the sort of information Manchester's community lacks.

The intellectual buzz is coming from north of the border

Indeed, the Henry Cooke Group has taken steps to remedy matters by starting, in May 1990, a monthly newsletter for the north-west, the North Midlands and North Wales called Corporate Update. The idea is a follow-on from Yorkshire, Humberside and the north-east, where Cooke in association with the Yorkshire Post, started Corporate Update in February. The newsletters provide short individual commentaries on recent deals.

Mr Nick Jaspan, Henry Cooke's marketing executive, feels that Manchester consistently undersells itself. In comparison with Leeds (where he is Cooke's representative on the Yorkshire and Humberside Financial Forum) Manchester has, he says, a far greater variety of activities – if only people knew about them. He also criticises a lack of enterprise among the city's support services such as specialist printing and audio-visual work.

"Until recently I was being rung regularly each week by London firms, perhaps 70 or 80 calls in all, which were eager for our business and quoting very keen prices," Mr Jaspan says. "During the same period I had perhaps two or three approaches from Manchester companies."

As north-west professionals compete for business and staff, pushed into the marketplace by relaxed codes of practice, the question inevitably arises whether to employ PR consultants or handle the challenge in-house. Hiring consultants can be a painful experience. Mr Graham McInnes, principal of the McInnes Partnership, newly-established corporate finance advisers, has yet to discover a consultancy which will satisfy his advertising, marketing and PR needs.

"It's very important for us to reach the regional business community. But to sell our services, consultants really must understand what we do. They must have breadth of vision. It's the one area of business where I am buying totally blind."

After flirting with consultancies, Halliwell Landau has just taken on its own marketing and PR executive in what Mr Geoffrey Schindler believes to be a first for Manchester law firms. Ms Tracey Gallagher worked for Deloitte before the merger with Coopers & Lybrand. Four years' experience of consultants, says Mr Schindler, "taught us enough to know we should be handling PR and marketing in-house.

"In our experience, consultants can't seem to get close enough to the organisation."

It is not a finding which you would expect Mr David Tattersall of City Press Services to endorse. City Press looks after a handful of blue-chip clients, such as Refuge Assurance and Price Waterhouse in the north-west and the British Airways' Manchester operation. The consultancy, based above a printer in Chapel Street, Salford, epitomises a no-nonsense, well-informed northern approach.

Mr Tattersall believes that the region has proved resistant to big-name infiltration from London precisely because it is so dynamic and diverse. But he feels that PR opportunities in the north-west tend to be more restricted than other regions by continuing parochialism. The Blackburn evening paper does not want to know about Preston, which itself turns away from Blackpool. Three evening newspapers operate within the Manchester conurbation.

Fresh media outlets, a more newsy approach to "stories" and greater willingness on the part of clients to treat public relations as a profession may yet release hidden talents, for example among the rump of talented journalists who in recent memory made Manchester Britain's second publishing centre.

Richard Waters reports on the region's stockbrokers

Last of the few get stronger

THE FEW significant brokers that populate the north-west of England are likely to get fewer still in the near future. The Bang, the Crash and the Shake-out have already taken their toll on the broking community there, as elsewhere in the UK, but more is to come.

Continuing low volumes of business in the aftermath of the 1987 stock market crash have made it difficult for many firms to make ends meet. The result has been a series of take-overs and amalgamations.

"The only options are buy, sell or merge," says Mr Adrian Evans, managing director of Benchmark, the company which owns Charlton Seal Schavieren, Manchester's number two firm. "All of us have talked to all the rest of us. Should we merge, take each other over, or what?"

For Charlton Seal, an answer to that question is imminent at the time of writing. Like so many others, this creation of the Big Bang era (when outsiders were allowed to buy stockbrokers) now looks to have been the result of weak strategic thinking, unable to withstand the downturn that has descended on the broking business. The broker, built out of Charlton Seal in Manchester and Schavieren of London, has ended up being squeezed in the middle, without either the low cost-base or substantial business volume it needs.

An aborted attempt to get together with the National Investment Group earlier this year is likely to be followed soon by a move to another firm. Henry Cooke Lumsden is the most frequently mooted partner, although neither side will confirm it.

HCL says simply that it is not planning to buy Charlton Seal – although, given the firm's financial position, Benchmark may have given up hope of selling it. It lost around £500,000 last year, and £100,000 in the six months to last December, on a cost base of around £4m a year. Given the flatness of stock market activity for much of this year, the year-end figures are unlikely to be good.

Other brokers have already faced the buy, sell or merge question. They have found themselves stronger partners, merged or become part of national groupings. Only Henry Cooke Lumsden, based in Manchester, has managed to carry on largely as before.

Hand-in-hand with the mergers and takeovers has been a geographical expansion, as firms seek to grow their client lists. According to Mr David Adams, chief executive of HCL: "Everyone wants more people who can generate revenue, because they have the infrastructure to process it."

The merger route was chosen by Rensburg of Liverpool, which got together with BWD of Huddersfield. Rensburg was purchased for £7.8m, although 85 per cent of this was in shares in the new group. The group, BWD Securities, became the first broker to float on the Unlisted Securities Market.

"We floated because we wanted to stay independent," says Mr Christopher Broadbent, joint managing director. "We foresaw a need for a stronger balance sheet." 55 per cent of the company is owned by its employees, while Yorkshire Building Society has just under 20 per cent and a spread of institutions and individuals the rest.

BWD has yet to to appear in Manchester, although Mr Broadbent says that could change soon. Not surprisingly, it is spoken of as a potential partner for Charlton Seal, should a deal with HCL not proceed.

Unlike some others, BWD has few ambitions in corporate finance (although it is broker to 20 companies), its main client base being the 16,000 personal customers (2,000 of them discretionary) for whom it manages £1.2bn (£150m discretionary).

Its approach has worked so far: last year, which was a tough one for brokers, it made a profit of £1.7m on turnover of £7.6m. In the first six months this year, in a quieter stock market, £0.5m is expected.

Illingworth Henriques chose a link-up of a different kind. It joined up with Allied Provincial, bringing the security of being part of a network of local stockbrokers. Such arrangements, where largely fixed central costs are spread across a number of offices, are becoming increasingly common. Bell Lawrie White, a multi-office firm owned by Hill Samuel and, ultimately, the TSB, set up from scratch in Manchester two years ago and now claims 1,000 clients.

Tilney, a Liverpool firm, found security through another route. It was bought by Charterhouse, part of the Royal Bank of Scotland, and has come through the upheaval of Big Bang as one of the stronger firms in the region.

Tilney has a strong institutional side, with 31 analysts (22 in Liverpool, nine in London) covering 60 per cent of the stock market by value. Its seven-person corporate finance department, with 30 brokerships to its name, is also one of the strongest in the region.

That leaves Henry Cooke Lumsden as the one firm largely unchanged by it all. It is still mostly owned by its managers (although they are now directors of a company rather than partners), with just 10 per cent in the hands of Refuge Assurance.

HCL dominates in Manchester – to the extent that it says it would welcome more local competition, to give local companies and professionals a greater confidence in Manchester brokers in general. The opportunities in Manchester have drawn the attention of both Charterhouse Tilney (which has just moved a nearby office into the city) and BWD Rensburg.

HCL, like others, relies mainly on private clients, who account for about a half of its income. With institutional broking (15 salesmen and analysts), the total from broking rises to two-thirds.

Other parts of the business have grown substantially. HCL's corporate finance department now boasts 40 brokerships, it has a 20 per cent stake in a bank (Edington) and it manages a development capital fund. There is also a large fund management operation. Mr Adams refuses to disclose the value of funds under discretionary management, but puts the amount of money "under the firm's influence" at £2bn.

Firms such as HCL, BWD and Tilney believe they have a large enough client base and a tight enough control on their costs to see themselves through the stockbroker shake-out. It remains to be seen how many others come through it with them.

Merger wave in commercial law

Fusion is strength

LAWYERS IN the north-west have succumbed to a bout of merger mania. It is not just size for size's sake, although there is some evidence that this obsession has caught hold in the legal profession in the same way as in the accountancy business a decade ago.

Rather, the merger wave has been prompted by a belief that there are too few strong commercial law firms in the region, and that companies will use law firms from elsewhere – if they do not already – if they are not offered a greater depth of talent on their doorstep.

Competition from outside the north-west is coming, as always, mainly from London, although Leeds offers some challenges. London lawyers win work from companies in the region looking to the capital markets – a fact that is unlikely to change much, however talented the local lawyers, given the presence of the capital markets.

Cost could help win business from the capital. Local firms put the cost of a local partner doing corporate work at £100-150 an hour, around half the charge for a partner in a large London firm. Differences like that have a significant effect on legal bills – although London firms put less partner time into an assignment.

The mergers have created a number of large firms – although size alone gives little indication of the type or quality of work they do. The biggest merger creations have been Davies Wallis Foyster, Lace Mawer and Cobbett Leak Almond.

The first, which took effect last November, created a 41-partner firm with more than 200 fee-earners – the largest in the region. Size gives clients greater confidence in a firm's depth of skills, enables it to bring in more specialists and makes recruitment far easier, says Mr Jim Davies, chief executive.

However, DWF has some way to go before becoming an established name on the corporate circuit. It has six partners specialising in company and commercial work.

DWF is treading a familiar path, expanding out of Liverpool into Manchester – as Alsop Wilkinson and Lace Mawer did before it. "You aren't taken seriously in corporate work unless you can cut it in Manchester," says Mr Davies.

Other mergers have taken different forms. For instance, six-partner Maurice Rubin Clare became the first local firm to forge a link with a London practice when it was absorbed by Davies Arnold Cooper in February. It has five people on the corporate side out of a total staff of 35, and hopes to double that within a year, financed in part by DAC's London operations.

Despite the mergers, the leading firms remain unchanged. Most rivals still list Addleshaw Sons & Latham, Alexander Tatham and Alsop Wilkinson (itself the product of a merger) as the firms they strive to emulate. In commercial work a fourth firm, Chaffe Street, is much admired.

Of these, it is Alsop that is currently raising eyebrows. It will shortly be without two of its top commercial partners in Manchester (including the highly-regarded Mr Alan Greenough). The other driving force on its corporate side, Mr Roger Lane-Smith, has been based in London in recent years. Rivals say, however, that it is far too soon to write the firm off.

Mr Will Holt, who has stepped into Mr Greenough's shoes, says the firm has five partners in the company and commercial field in Manchester (in addition to three in Liverpool) and still has the depth of talent to maintain its market position.

The loss of two key partners following a merger, however (the Wilkinson connection was forged two years ago) should stand as a warning to all merger-mad lawyers of the potential dangers of such moves in terms of retaining valuable staff.

Through the merger whirl, Addleshaw carries on regardless. According to Mr Paul Lee, corporate work continues to be strong, despite the economic slowdown, and this year looks like being as good as others recently. "The quality of deals in the last quarter has been as good as we have ever seen," he says.

The firm has 30 partners and another 50 fee earners – six of its partners in company work. Besides commercial property, it is now a significant presence in the insolvency business, having taken the bulk of Priors' Manchester office (including four partners) when the rest of the firm merged with Dibb Lupton recently.

Alexander Tatham, with 21 partners (11 of them in commercial work), has also stayed out of the mergers, and remains highly regarded by competitors.

Another respected name in commercial work is Chaffe Street, which has one of the biggest commercial departments in the region. Its 20 lawyers (13 in corporate work, with others in commercial litigation and property) have made it the target of many approaches by other local firms seeking a merger, says Mr John Street, one of two Street brothers in the firm (the Chaffe comes from its Stockport roots, from which it separated in 1982).

Short of an approach from a London firm seeking a regional arm, Mr Street says that the firm will refuse all offers.

Such specialist niche firms are becoming scarce. Another in the region is Bullivant, a Liverpool commercial property firm, while insolvency practice William Prior recently broke up.

All three of the leading firms in the region became part of national groupings at the end of the 1980s (Addleshaw in the Norton Rose M5 association, Tatham in Eversheds and Alsop in Legal Resources Group). These groups, with varying degrees of cohesion and commitment binding them together, could yet cohere into the first true national practices.

Richard Waters

Robert Waterhouse *looks at the region's attempts to promote its finance industry*

Forum puts up fees and raises profile

MAY'S OFFICIAL launch of the Yorkshire and Humberside Financial Forum invites comparison with the Manchester Financial and Professional Forum, now some five years old. The Leeds movers opted for a relatively steep membership contribution of £5,000 in the expectation of active involvement by high-profile individuals. Manchester's approach has been to embrace the city's professions by means of a low entry fee; some claim it has also shown a low activity rate outside the annual dinner and the old boy network.

Whether in response to Leeds or not, Manchester is changing. Subscriptions have been tripled to £500, and the membership target raised to 120. From this autumn, MFPF is to have its own, albeit part-time, director in Mr David Baker, the retiring Bank of England Manchester manager, and a secretariat based at the Manchester Chamber of Commerce offices in Oxford Street. The forum is seeking a more active role in Manchester's growing financial community.

Its supporters deny that MFPF ever was simply a club. They say that it has successfully raised the profile of Manchester, achieved recognition for the city as the premier financial centre in the regions, and made the local business community more aware of services on offer. "We would readily admit to deficiencies," says Mr Mel Harding, the committee member responsible for publicity, "but these are down to resources like time and money – not to a lack of commitment."

Promotional competition from Leeds and Birmingham is a spur, but interests are not necessarily mutually exclusive. "We welcome the initiatives of Leeds and others," Mr Harding comments. "They demonstrate that businesses don't have to go to London for certain key services."

Mr Baker's job at the Bank of England since 1985 has involved, among other things, the role of industrial liaison, keeping close to north-west industry and commerce in order to report the regional temperature back to Threadneedle Street. This has given him a wide range of contacts which, he says, he will be employing but not exploiting.

One target area will be professionals in north-west centres such as Preston, Lancaster and Carlisle, or even the Manchester satellites Bolton and Oldham, which still tend to bypass Manchester for London when it comes to specialist services.

Company formation, Mr Baker suggests, is the sort of expertise Manchester could be offering each day to Lancashire and Cheshire lawyers, who "fear the monster on their doorstep more than the dragon down the road."

He feels the region has at its grasp a moment of great potential, created by the logjam in the south-east and the opening up of Europe. "We are suggesting that people exploit the region's commercial and manufacturing capacity by making better use of the services on offer," he says.

This, of course, includes overseas investment, and here a variety of networks intertwines. Part of MFPF's behind-the-scenes work lies in supplying Inward, the north-west investment agency, and promotional bodies such as the Trafford Park Development Corporation with computerbase updates so that responses to US or German inquiries include specific information on financial services. Chicago or Dusseldorf companies would probably expect to buy professional support in their home town, so there is far less of a cultural problem here than in selling Manchester know-how to south-east concerns.

Peter Folkman, of North of England Ventures

Two informal groupings reinforce these links. Manchester's Consular Association meets regularly for lunch at the Town Hall where the practice is for honorary consuls – often Manchester lawyers – to bring along guests, typically visitors from the countries they represent, to meet key figures in the local community. The city's cosmopolitan connections also surface in Manmiba, the Manchester Merchant and International Bankers *Association*, currently with 64 members.

The association, which meets quarterly at the St James's Club in Charlotte Street for lunch and a topical talk, has its history back in exchange control days when overseas banks felt the need to pool problems. With the support of the Bank of England, which holds an annual reception in its honour, Manmiba has developed into a practitioners' group seen as particularly useful for the smaller international operations setting up in town. Managers of new arrivals – such as Credit Lyonnais and the Bank of Cyprus – are automatically welcomed to the network.

Manchester also runs the most active regional branch of the Institute of Fiscal Studies, chaired this year by Mr Peter Folkman, founder of North of England Ventures and former director of 3i's Manchester operation. Mr Folkman sees monthly branch meetings at the *St James's, attended by* 60-100 professionals and ranging into matters of the public and private purse, as "a sign of life outside London." He notes, for instance, that the IFS's pre-Budget presentations are discussed more thoroughly in Manchester than London.

Last year the branch, together with Umist, offered a £750 essay prize for contributions to the regional policy debate won by Mr Mark Byers of Grant Thornton. It plans to arrange another prize in the coming year, *this time in* conjunction with the Manchester Business School.

Is there a new Manchester School, a new philosophy, emerging? "I wish I could, with a straight face, say 'yes'," Mr Folkman replies. Ideology tends to be less evident than research and analysis. "*The* IFS is a good connection. We have the franchise, we tend to run our own world, and it adds up to being very important to our credibility."

In Mr Folkman's opinion it takes more than intellectual fervour, effective publicity or even tangible achievements to alter the view of Manchester from the Square Mile. The blinkers still pertain. But he admits to personal surprise at the relative success of MFPF as a *promotional vehicle*. "The Forum has developed a profile for Manchester that a lot of others have imitated." He sees advantages in the loose-limbed structure that go beyond organising well-attended dinners.

If Liverpool chooses to keep a discreet distance from Manchester's trumpetings it is partly because cross-fertilisation between practices has destroyed many old animosities. And as Mr Graham Thel*wall Jones of Charterhouse* Tilney in Liverpool underlines, Merseyside competes quite happily on its own terms. What is good for Manchester, in this context, is good for the north-west. Could it be the start of supra-regionalism?

Management consultancies range from sole practitioners to large operations

Problem of picking the right helpmate

WHATEVER disadvantages north-west industry faces in the 1990s, it is not without advice. Management consultancies listed in the current BT West Pennines area Business Pages directory run to four columns, or about 300 entries, although this area mysteriously excludes both Cheshire and the Lancashire coast north of Formby.

Consultancies based in the region reflect a spectrum of resource from the largest international operations to sole practitioners. The problem clients face is picking the right helpmate.

Mr Larry Tune, Coopers & Lybrand Deloitte's northern director of management consultancy services, claims that his company's operation is the "biggest by far" in the region. Manchester's 65 fee-earners together with Liverpool's 37 generate an income of £9m for the north-west, nearly half of the total northern take.

Mr Tune calls the merger between Coopers, his old firm, and Deloitte "a marriage made in heaven" because Deloitte brings an audit base to the tryst which was largely unexploited for consultancy purposes. The opportunity, says Mr Tune, a man not given to understatement, is "immense."

This does not mean being amorphous. "Because we are so big, we have become multi-specialists. We aren't generalists." It's a claim echoed throughout the profession. Mr Roy Davies, partner in charge of the 70-strong Price Waterhouse Manchester consultancy, which also works in tandem with its Liverpool office, notes an increasing sophistication among clients looking for cost reduction and bottom-line savings.

It pays to cultivate long-lasting relations *with a relatively small* number of clients

"We are talking about third generation consultancy users," says Mr Davies, "who are more experienced and more demanding." It pays, therefore, to cultivate long-lasting relations with a relatively small number of clients. And, as part of the relationship, consultants are becoming pro-active, investing their own resources in areas of likely interest. Mr Davies mentions, for instance, Price Waterhouse's work on cable TV opportunities in the north.

His consultancy's £6m fee turnover includes market preparation work for Manweb, the Merseyside and North Wales Electricity Board; Raab Karcher, the West German building supplies company and Dalgety.

Activity within companies is necessarily discreet, but every now and then consultants hit the headlines. "I helped save the Manchester Ship Canal," claims Mr Tune. He refers to the Coopers & Lybrand report for the Manchester Ship Canal Steering Committee, presented in March 1986 just before the abolition of the Greater Manchester Council, which identified commercial opportunities and underlined the value of preserving the canal's upper reaches.

Mr Tune says he would now love to become involved in a study to show the potential of the new West Coast passenger ferry service between Liverpool and Bordeaux.

However, the North West Channel Tunnel Group looked beyond the region for last year's report on the implications of rail links and the Single European Market. The group commissioned Pieda as its main planning consultants. It was important that British Rail, which has also used Pieda, could not belittle the group's recommendations.

Equally, north-west consultancies work around the world or around Britain. The Chester-based Doctus Management Consultancy recently signed an agreement with a privately-owned Soviet company to project manage development in the Tomsk region of Siberia. Collinson Grant Consultants, based at Swinton, North Manchester, carries out almost half its work in London and the south-east.

In 20 years Collinson Grant has grown from a two-man operation to employ about 100 people, all fee-earning, turning over a profitable £5m. Mr Len Collinson, its managing director and central force since his partner, Mr James Grant, died in 1981, runs a horizontally structured consultancy from a former doctor's surgery furnished like a Boulting Brothers' film of middle-class Northern life circa 1960.

When Collinson Grant bought the building in 1975, eschewing the Manchester city centre, the doctor's receptionist, Mrs Cynthia Vernon, stayed on. She, and Mrs Diana Wroe, the partners' original secretary, exercise quality control over all written matter leaving Colgran House: if they don't approve it doesn't go.

They also, of course, know all clients – companies which include Hanson, the Isle of *Man Government*, Marks *and* Spencer, Mitsubishi and Thorn Lighting. Collinson Grant led the project to create Lancashire Enterprises, the successful development arm of Lancashire County Council, now a privately-run plc.

Across Manchester at Wilmslow, Wickland Westcott runs a similar-sized independent consultancy in a modern designer environment. Clients include British Airways, Ciba-Geigy, Glaxo, Ilford, Kellogg and, just down the road, Whitecroft. Wickland Westcott has been in Wilmslow for 12 years and recently bought control of the company back from Cresta Holdings for £3.2m, with a deferred consideration of £1.2m when flotation comes in about five years' time.

One rule of thumb is that technical consultancy comes cheaper than personal

The style contrast with Collinson Grant is total, but Mr Mike Westcott's impression of the north-west business scene does not differ fundamentally from that of Mr Collinson, or for that matter Mr Tune and Mr Davies. Industry, they report, is resilient and resourceful in the current downturn, but clients not surprisingly seek more and more added value for their money.

How much are they prepared to pay? The fee baseline starts at around £500 a day, much as in other regions, but rates can break £1,000. So much depends on the sort of work undertaken. One rule of thumb is that technical consultancy comes cheaper than personal, or human resource, development. Coopers & Lybrand Deloitte operates a national fee structure but is coy about details; Collinson Grant averages £500, Wickland Westcott £900.

Is it hard attracting the right staff to work from the north-west? Mr Tune of Coopers admits to an image problem which is usually solved when people come to see for themselves. Mr Westcott says his consultants live all round the country, but that the first consideration is to match staff with a company culture, which can mean long-distance commuting.

The industry has shed jobs in some sectors, principally executive search. But at a time of ever-sharpening competition within industry, top consultants write their own salary increases.

Robert Waterhouse

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